Kentucky Utilities Company
Case No. 2012-00221
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(6)(s)
Sponsoring Witness: Kent W. Blake

Description of Filing Requirement:

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

Response:

The below-listed documents are provided. Please note that KU became an SEC Registrant effective June 1, 2011. KU's registration occurred in connection with filing a Form S-4 registration statement with the SEC on April 21, 2011. KU filed a Form S-4 with the SEC, as agreed in the registration rights agreements entered into in connection with the issuance of first mortgage bonds in November 2010 in a transaction not registered under the Securities Act of 1933. The Form S-4 relates to an offer to exchange the first mortgage bonds issued in November 2010 with similar but registered securities.

- December 31, 2011 Form 10-K Annual Report to the Securities and Exchange Commission
- December 31, 2010 Annual Financial Statements and Additional Information
- June 18, 2012 Form 8-K
- June 8, 2012 Form 8-K
- May 4, 2012 Form 8-K (PPL Corporation)
- December 15, 2011 Form 8-K
- November 9, 2011 Form 8-K
- October 19, 2011 Form 8-K
- September 15, 2011 Form 8-K
- Report of Certain Material Changes – January 2010 – May 2011
- March 31, 2012 Form 10-Q Quarterly Report to the Securities and Exchange Commission
- September 30, 2011 Form 10-Q Quarterly Report to the Securities and Exchange Commission
- June 30, 2011 Form 10-Q/A Quarterly Report to the Securities and Exchange Commission
- March 31, 2011 Condensed Financial Statements and Additional Information
- September 30, 2010 Condensed Financial Statements and Additional Information
- June 30, 2010 Condensed Financial Statements and Additional Information

LOUISVILLE GAS & ELECTRIC CO /KY/

FORM 10-K
(Annual Report)

Filed 02/28/12 for the Period Ending 12/31/11

Address	220 W MAIN ST P O BOX 32030 LOUISVILLE, KY 40232
Telephone	5026272000
CIK	0000060549
SIC Code	4931 - Electric and Other Services Combined
Fiscal Year	12/31

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2011

OR

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

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
1-11459	**PPL Corporation** (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-32944	**PPL Energy Supply, LLC** (Exact name of Registrant as specified in its charter) (Delaware) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-3074920
1-905	**PPL Electric Utilities Corporation** (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	**LG&E and KU Energy LLC** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, Kentucky 40202-1377 (502) 627-2000	20-0523163
1-2893	**Louisville Gas and Electric Company** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, Kentucky 40202-1377 (502) 627-2000	61-0264150
1-3464	**Kentucky Utilities Company** (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, Kentucky 40507-1462 (502) 627-2000	61-0247570

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock of PPL Corporation	New York Stock Exchange
Corporate Units issued 2011 of PPL Corporation	New York Stock Exchange
Corporate Units issued 2010 of PPL Corporation	New York Stock Exchange
Junior Subordinated Notes of PPL Capital Funding, Inc. 2007 Series A due 2067	New York Stock Exchange
Senior Notes of PPL Capital Funding, Inc. 6.85% due 2047	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Common Stock of PPL Electric Utilities Corporation

Indicate by check mark whether the registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act.

PPL Corporation	Yes X	No ___
PPL Energy Supply, LLC	Yes ___	No X
PPL Electric Utilities Corporation	Yes ___	No X
LG&E and KU Energy LLC	Yes ___	No X
Louisville Gas and Electric Company	Yes ___	No X
Kentucky Utilities Company	Yes ___	No X

Indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

PPL Corporation	Yes ___	No X
PPL Energy Supply, LLC	Yes ___	No X
PPL Electric Utilities Corporation	Yes ___	No X
LG&E and KU Energy LLC	Yes ___	No X
Louisville Gas and Electric Company	Yes ___	No X
Kentucky Utilities Company	Yes ___	No X

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

PPL Corporation	Yes X	No ___
PPL Energy Supply, LLC	Yes X	No ___
PPL Electric Utilities Corporation	Yes X	No ___
LG&E and KU Energy LLC	Yes X	No ___
Louisville Gas and Electric Company	Yes X	No ___
Kentucky Utilities Company	Yes X	No ___

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

PPL Corporation	Yes X	No ___
PPL Energy Supply, LLC	Yes X	No ___
PPL Electric Utilities Corporation	Yes X	No ___
LG&E and KU Energy LLC	Yes X	No ___
Louisville Gas and Electric Company	Yes X	No ___
Kentucky Utilities Company	Yes X	No ___

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

PPL Corporation	[ ]
PPL Energy Supply, LLC	[X]
PPL Electric Utilities Corporation	[X]
LG&E and KU Energy LLC	[X]
Louisville Gas and Electric Company	[X]
Kentucky Utilities Company	[X]

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

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
PPL Corporation	[X]	[ ]	[ ]	[ ]
PPL Energy Supply, LLC	[ ]	[ ]	[X]	[ ]
PPL Electric Utilities Corporation	[ ]	[ ]	[X]	[ ]
LG&E and KU Energy LLC	[ ]	[ ]	[X]	[ ]
Louisville Gas and Electric Company	[ ]	[ ]	[X]	[ ]
Kentucky Utilities Company	[ ]	[ ]	[X]	[ ]

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

PPL Corporation	Yes ____	No _X_
PPL Energy Supply, LLC	Yes ____	No _X_
PPL Electric Utilities Corporation	Yes ____	No _X_
LG&E and KU Energy LLC	Yes ____	No _X_
Louisville Gas and Electric Company	Yes ____	No _X_
Kentucky Utilities Company	Yes ____	No _X_

As of June 30, 2011, PPL Corporation had 577,265,119 shares of its $.01 par value Common Stock outstanding. The aggregate market value of these common shares (based upon the closing price of these shares on the New York Stock Exchange on that date) held by non-affiliates was $16,065,288,262. As of January 31, 2012, PPL Corporation had 579,234,837 shares of its $.01 par value Common Stock outstanding.

As of January 31, 2012, PPL Corporation held all 66,368,056 outstanding common shares, no par value, of PPL Electric Utilities Corporation.

PPL Corporation indirectly holds all of the membership interests in PPL Energy Supply, LLC.

PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.

As of January 31, 2012, LG&E and KU Energy LLC held all 21,294,223 outstanding common shares, no par value, of Louisville Gas and Electric Company.

As of January 31, 2012, LG&E and KU Energy LLC held all 37,817,878 outstanding common shares, no par value, of Kentucky Utilities Company.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K and are therefore filing this form with the reduced disclosure format.

Documents incorporated by reference:

PPL Corporation has incorporated herein by reference certain sections of PPL Corporation's 2012 Notice of Annual Meeting and Proxy Statement, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2011. Such Statements will provide the information required by Part III of this Report.

PPL CORPORATION
PPL ENERGY SUPPLY, LLC
PPL ELECTRIC UTILITIES CORPORATION
LG&E AND KU ENERGY LLC
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

FORM 10-K ANNUAL REPORT TO
THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 2011

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This combined Form 10-K is separately filed by PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company is filed by PPL Corporation and separately by PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company on their own behalf. No registrant makes any representation as to information relating to any other registrant, except that information relating to the five PPL Corporation subsidiaries is also attributed to PPL Corporation and the information relating to Louisville Gas and Electric Company and Kentucky Utilities Company is also attributed to LG&E and KU Energy LLC.

COMBINED NOTES TO FINANCIAL STATEMENTS

GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its current and former subsidiaries

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

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

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

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

LKS - LG&E and KU Services Company, a subsidiary of LKE that provides services for LKE and its subsidiaries. The subsidiary was acquired by PPL through the acquisition of LKE in November 2010.

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

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

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

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

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

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

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

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

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

PPL Holtwood - PPL Holtwood, LLC, a subsidiary of PPL Generation that owns hydroelectric generating operations in Pennsylvania.

PPL Investment Corp. - PPL Investment Corporation, a subsidiary of PPL Energy Supply.

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

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

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

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

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

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

WPD - refers to PPL WW and PPL WEM and their subsidiaries.

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

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

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

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

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

WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-utility generating plants in western Kentucky until July 2009. The subsidiary was acquired by PPL through the acquisition of LKE in November 2010.

Other terms and abbreviations

£ - British pound sterling.

1945 First Mortgage Bond Indenture - PPL Electric's Mortgage and Deed of Trust, dated as of October 1, 1945, to Deutsche Bank Trust Company Americas, as trustee, as supplemented.

2001 Mortgage Indenture - PPL Electric's Indenture, dated as of August 1, 2001, to The Bank of New York Mellon (as successor to JPMorgan Chase Bank), as trustee, as supplemented.

2010 Bridge Facility - an up to $6.5 billion Senior Bridge Term Loan Credit Agreement between PPL Capital Funding, as borrower, and PPL, as guarantor, and a group of banks syndicated in June 2010, to serve as a funding backstop in the event alternative financing was not available prior to the closing of PPL's acquisition of E.ON U.S. LLC.

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

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

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

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

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

2011 Registration Statement(s) - refers to the registration statements on Form S-4 filed with the SEC by each of LKE (Registration No. 333-173665) on April 21, 2011, LG&E (Registration No 333-173676) on April 22, 2011 and KU (Registration No. 333-173675) on April 22, 2011, each as amended by Amendment No. 1 filed with the SEC on May 26, 2011 and effective June 1, 2011.

401(h) account - A sub-account established within a qualified pension trust to provide for the payment of retiree medical costs.

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

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

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

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

AMT - alternative minimum tax.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

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

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

Bcf - billion cubic feet.

Black Lung Trust - a trust account maintained under federal and state Black Lung legislation for the payment of claims related to disability or death due to pneumoconiosis.

Bluegrass CTs - Three natural gas combustion turbines owned by Bluegrass Generation. LG&E and KU entered into an Asset Purchase Agreement with Bluegrass Generation for the purchase of these combustion turbines, subject to certain conditions including receipt of applicable regulatory approvals and clearances.

Bluegrass Generation - Bluegrass Generation Company, L.L.C., an exempt wholesale electricity generator in LaGrange, Kentucky.

BREC - Big Rivers Electric Corporation, a power-generating rural electric cooperative in western Kentucky.

CAIR - the EPA's Clean Air Interstate Rule.

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

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

CPCN - Certificate of Public Convenience and Necessity. Authority granted by the KPSC pursuant to Kentucky Revised Statute 278.020 to provide utility service to or for the public or the construction of any plant, equipment, property or facility for furnishing of utility service to the public.

CSAPR - Cross-State Air Pollution Rule, the CSAPR implements Clean Air Act requirements concerning the transport of air pollution from power plants across state boundaries. The CSAPR replaces the 2005 CAIR, which the U.S. Court of Appeals for the D.C. Circuit ordered the EPA to revise in 2008. The court has granted a stay allowing CAIR to remain in place pending a ruling on the legal challenges to the CSAPR.

CTC - competitive transition charge on customer bills to recover allowable transition costs under the Customer Choice Act.

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

DDCP - Directors Deferred Compensation Plan.

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

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

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

DPCR4 - Distribution Price Control Review 4, the U.K. 5-year rate review period applicable to WPD that commenced April 1, 2005.

DPCR5 - Distribution Price Control Review 5, the U.K. 5-year rate review period applicable to WPD that commenced April 1, 2010.

DRIP - Dividend Reinvestment and Direct Stock Purchase Plan.

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM plans proposed by any utility under its jurisdiction. Proposed DSM mechanisms may seek full recovery of DSM programs and revenues lost by implementing those programs and/or incentives designed to provide financial rewards to the utility for implementing cost-effective DSM programs. The cost of such programs shall be assigned only to the class or classes of customers which benefit from the programs.

DUoS - Distribution Use of System. This forms the majority of WPD's revenues and is the charge to electricity suppliers who are WPD's customers and use WPD's network to transmit electricity.

EBPB - Employee Benefit Plan Board. The administrator of PPL's U.S. qualified retirement plans, which is charged with the fiduciary responsibility to oversee and manage those plans and the investments associated with those plans.

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

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

EEI - Electric Energy, Inc., which owns and operates a coal-fired plant and a natural gas facility in southern Illinois.

EMF - electric and magnetic fields.

E.ON AG - a German corporation and the parent of E.ON UK plc, the former parent of Central Networks, and the indirect parent of E.ON US Investments Corp., the former parent of LKE.

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

EPS - earnings per share.

Equity Units - refers collectively to the 2011 and 2010 Equity Units.

ESOP - Employee Stock Ownership Plan.

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

EWG - exempt wholesale generator.

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

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

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

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

GAAP - Generally Accepted Accounting Principles in the U.S.

GBP - British pound sterling.

GHG - greenhouse gas(es).

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

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

IBEW - International Brotherhood of Electrical Workers.

ICP - Incentive Compensation Plan.

ICPKE - Incentive Compensation Plan for Key Employees.

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

Ironwood - a natural gas-fired power plant in Lebanon, Pennsylvania with a summer rating of 657 MW.

IRP - Integrated Resource Plan. Pursuant to Kentucky Administrative Regulation 807 5:058, Kentucky electric utilities are required to file triennially an IRP with the KPSC. The filing is to provide the utilities' load forecasts and resource plans to meet future demand with an adequate and reliable supply of electricity at the lowest possible cost for all customers while satisfying all related state and federal laws and regulations.

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

IRC Sec. 481 - the Internal Revenue Code Section that identifies the tax year in which accounting method change differences are recognized in federal taxable income.

ISO - Independent System Operator.

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

KU 2010 Mortgage Indenture - KU's Indenture dated as of October 1, 2010, to The Bank of New York Mellon, as trustee, as supplemented.

kVA - kilovolt-ampere.

kWh - kilowatt-hour, basic unit of electrical energy.

LCIDA - Lehigh County Industrial Development Authority.

LG&E 2010 Mortgage Indenture - LG&E's Indenture, dated as of October 1, 2010, to The Bank of New York Mellon, as trustee, as supplemented.

LIBOR - London Interbank Offered Rate.

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

MACT - maximum achievable control technology.

MATS - Mercury and Air Toxics Standards.

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

MMBtu - One million British Thermal Units.

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

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

MW - megawatt, one thousand kilowatts.

MWh - megawatt-hour, one thousand kilowatt-hours.

NDT - PPL Susquehanna's nuclear plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

NGCC - Natural gas-fired combined-cycle turbine.

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

NPDES - National Pollutant Discharge Elimination System.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception receive accrual accounting treatment.

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

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

OCI - other comprehensive income or loss.

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

Opacity - The degree to which emissions reduce the transmission of light and obscure the view of an object in the background. There are emission regulations that limit the opacity in power plant stack gas emissions.

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek Plant in Ohio and the Clifty Creek Plant in Indiana, with combined nameplate capacities of 2,390 MW.

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

PEDFA - Pennsylvania Economic Development Financing Authority.

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

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

PP&E - property, plant and equipment.

Predecessor - refers to the LKE, LG&E and KU pre-acquisition activity covering the time period prior to November 1, 2010.

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

PUC Final Order - final order issued by the PUC on August 27, 1998, approving the settlement of PPL Electric's restructuring proceeding.

PUHCA - Public Utility Holding Company Act of 1935, repealed effective February 2006 by the Energy Policy Act of 2005 and replaced with the Public Utility Holding Company Act of 2005.

Purchase Contracts - refers collectively to the 2010 and 2011 Purchase Contracts.

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

PURTA - The Pennsylvania Public Utility Realty Tax Act.

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

RECs - renewable energy credits.

Regional Transmission Expansion Plan - PJM conducts a long-range Regional Transmission Expansion Planning process that identifies what changes and additions to the grid are needed to ensure future needs are met for both the reliability and the economic performance of the grid. Under PJM agreements, transmission owners are obligated to build transmission projects that are needed to maintain reliability standards and that are reviewed and approved by the PJM Board.

Registrants - PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU, collectively.

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

Rev. Proc(s **).** - Revenue Procedure(s), an official published statement by the IRS of a matter of procedural importance to both taxpayers and the IRS concerning administration of the tax laws.

RMC - Risk Management Committee.

RTO - Regional Transmission Organization.

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

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

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

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

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

Securities Act of 1933 - the Securities Act of 1933, 15 U.S. Code, Sections 77a-77aa, as amended.

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

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

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

SMGT - Southern Montana Electric Generation & Transmission Cooperative, Inc., a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus expiring in June 2019.

Successor - refers to the LKE, LG&E and KU post-acquisition activity covering the time period after October 31, 2010.

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

TC2 - Trimble County Unit 2, a coal-fired plant located in Kentucky with a net summer capacity of 732 MW. LKE indirectly owns a 75% interest (consists of LG&E's 14.25% and KU's 60.75% interests) in TC2, or 549 MW of the capacity.

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

Total shareowner return - increase in market value of a share of the Company's common stock plus the value of all dividends paid on a share of the common stock during the applicable performance period, divided by the price of the common stock as of the beginning of the performance period.

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

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

VEBA - Voluntary Employee Benefit Association Trust, accounts for health and welfare plans for future benefit payments for employees, retirees or their beneficiaries.

VIE - variable interest entity.

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

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

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

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FORWARD -LOOKING INFORMATION

Statements contained in this Form 10-K concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in "Item 1A. Risk Factors" and in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K report, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

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

- business dispositions or acquisitions and our ability to successfully operate such acquired businesses and realize expected benefits from business acquisitions, including PPL's 2011 acquisition of WPD Midlands and 2010 acquisition of LKE.

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

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

PART I

ITEM 1. BUSINESS

BACKGROUND

PPL Corporation , headquartered in Allentown, Pennsylvania, is an energy and utility holding company that was incorporated in 1994. Through its subsidiaries, PPL generates electricity from power plants in the northeastern, northwestern and southeastern U.S.; markets wholesale or retail energy primarily in the northeastern and northwestern portions of the U.S.; delivers electricity to customers in Pennsylvania, Kentucky, Virginia, Tennessee and the U.K. and natural gas to customers in Kentucky.

In 2011 and 2010, PPL completed two acquisitions:

- On April 1, 2011, PPL, through its indirect, wholly owned subsidiary, PPL WEM, completed its acquisition of all the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands), from subsidiaries of E.ON AG. The consideration for the acquisition consisted of cash of $5.8 billion, including the repayment of $1.7 billion of affiliate indebtedness owed to subsidiaries of E.ON AG and $800 million of long-term debt assumed through consolidation. WPD Midlands operates two regulated distribution networks that serve five million end-users in the Midlands area of England.

- On November 1, 2010, PPL acquired all of the limited liability company interests of E.ON U.S. LLC from a wholly owned subsidiary of E.ON AG. Upon completion of the acquisition, E.ON U.S. LLC was renamed LG&E and KU Energy LLC (LKE). LKE is engaged in regulated utility operations through its subsidiaries, LG&E and KU. The consideration for the acquisition consisted of cash of $6.8 billion, including the repayment of $4.3 billion of affiliate indebtedness owed to subsidiaries of E.ON AG, and $800 million of debt assumed through consolidation.

- See Note 10 to the Financial Statements for additional information on both acquisitions.

The acquisitions of WPD Midlands and LKE: (1) substantially reapportion the mix of PPL's regulated and competitive businesses by increasing the regulated portion of its business; (2) strengthen PPL's credit profile; and (3) enhance rate-regulated growth opportunities as the regulated businesses make investments to meet environmental compliance requirements and improve infrastructure and customer reliability. The investment in regulated assets also provides earnings stability through regulated returns and the ability to recover prudently incurred capital investments, in contrast to the competitive supply business where earnings and cash flows are subject to market conditions. At December 31, 2011, PPL had:

- $12.7 billion in operating revenues (including eight months from WPD Midlands, which are recorded on a one-month lag)

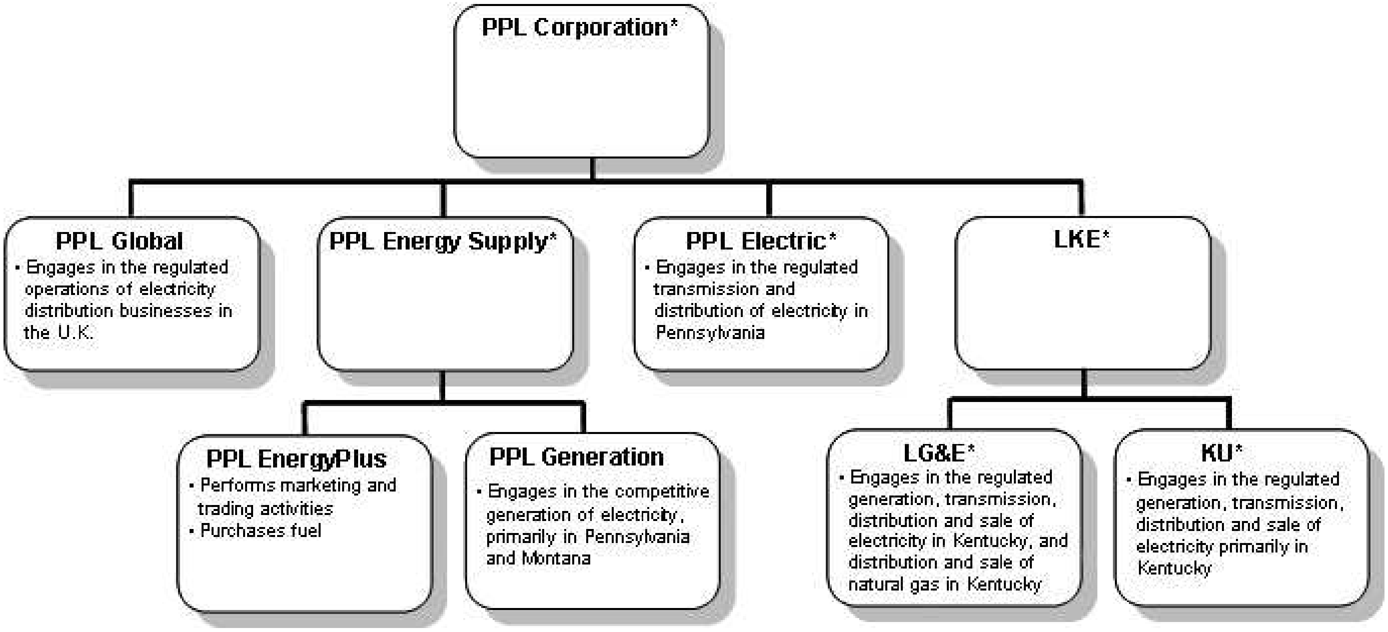
- 10.5 million end-users of its utility services (including 5 million end-users served by the WPD Midlands companies)

- Approximately 19,000 MW of generation

- Approximately 18,000 full-time employees

In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to its parent, PPL Energy Funding (the parent holding company of PPL Energy Supply and PPL Global with no other material operations), to better align PPL's organizational structure with the manner in which it manages its businesses and reports segment information in its consolidated financial statements. The distribution separated the U.S.-based competitive energy marketing and supply business from the U.K.-based regulated electricity distribution business. See Note 9 to the Financial Statements for additional information.

At December 31, 2011 PPL's principal subsidiaries are shown below (* denotes an SEC registrant; LKE, LG&E and KU became SEC registrants effective June 1, 2011):



In addition to PPL Corporation, the other SEC registrants included in this filing are:

PPL Energy Supply, LLC , headquartered in Allentown, Pennsylvania, is an indirect wholly owned subsidiary of PPL formed in 2000 and is an energy company engaged through its subsidiaries in the generation and marketing of electricity, primarily in the northeastern and northwestern power markets of the U.S. PPL Energy Supply's major operating subsidiaries are PPL EnergyPlus and PPL Generation. As noted above, in January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to its parent, PPL Energy Funding. For 2010 and 2009, the operating results of PPL Global, which represents the International Regulated segment, are classified as Discontinued Operations. At December 31, 2011, PPL Energy Supply owned or controlled 10,508 MW of electric power generation capacity and is implementing capital projects at certain of its existing generation facilities in Pennsylvania and Montana to provide 191 MW of additional generating capacity by the end of 2013.

PPL Electric Utilities Corporation , headquartered in Allentown, Pennsylvania, is a direct subsidiary of PPL incorporated in 1920 and a regulated public utility. PPL Electric delivers electricity in its Pennsylvania service territory and provides electricity supply to retail customers in that territory as a PLR under the Customer Choice Act.

LG&E and KU Energy LLC, headquartered in Louisville, Kentucky, is a holding company with regulated utility operations through its subsidiaries, LG&E and KU, and is a wholly owned subsidiary of PPL. LKE, formed in 2003, is the successor to a Kentucky entity incorporated in 1989.

Louisville Gas and Electric Company, headquartered in Louisville, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky. LG&E was incorporated in Kentucky in 1913. At December 31, 2011, LG&E owned 3,352 MW of electric power generation capacity and, subject to certain regulatory approvals, is implementing capital projects at certain of its existing generation facilities to provide 483 MW of additional generating capacity by 2016. LG&E also anticipates retiring 563 MW of generating capacity by the end of 2015 to meet certain environmental regulations. LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail native load.

Kentucky Utilities Company, headquartered in Lexington, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky, Virginia and Tennessee. KU was incorporated in Kentucky in 1912 and Virginia in 1991. KU serves its Virginia customers under the Old Dominion Power name while its Kentucky and Tennessee customers are served under the KU name. At December 31, 2011, KU owned 4,833 MW of electric power generation capacity and, subject to certain regulatory approvals, is implementing capital projects at certain of its existing generation facilities to provide 652 MW of additional generating capacity by 2016. KU also anticipates retiring 234 MW of generating capacity by the end of 2015 to meet certain environmental regulations. KU and LG&E jointly dispatch their generation units with the lowest cost generation used to serve their retail native load.

PPL's utility subsidiaries, and to a lesser extent, certain of its competitive supply subsidiaries, are subject to extensive regulation by the FERC including: wholesale sales of power and related transactions, electric transmission service, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties and payments of dividends. PPL and LKE are subject to certain FERC regulations as holding companies under PUHCA and the Federal Power Act, including with respect to accounting and record-keeping, inter-system sales of non-power goods and services and acquisitions of securities in, or mergers with, certain types of electric utility companies.

Successor and Predecessor Financial Presentation *(LKE, LG&E and KU)*

LKE's, LG&E's and KU's Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010 and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, and the cost bases of certain assets and liabilities were changed as of November 1, 2010 as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor periods are not comparable to the Predecessor periods; however, the core operations of LKE, LG&E and KU have not changed as a result of the acquisition.

Segment Information

(PPL)

Following the November 1, 2010 acquisition of LKE, PPL is organized into four reportable segments: Kentucky Regulated, International Regulated, Pennsylvania Regulated and Supply. There were no changes to reportable segments in 2011.

(PPL Energy Supply)

In 2011, PPL Energy Supply operated in a single reportable segment. Prior to 2011, PPL Energy Supply's segments consisted of Supply and International Regulated. In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to its parent, PPL Energy Funding, to better align PPL's organizational structure with the manner in which it manages its businesses and reports segment information in its consolidated financial statements. For 2010 and 2009, the operating results of PPL Global, which represent the International Regulated segment, are classified as discontinued operations.

(PPL Electric, LKE, LG&E and KU)

PPL Electric, LKE, LG&E and KU each operate in a single reportable segment.

(PPL and PPL Energy Supply)

See Note 2 to the Financial Statements for financial information about the segments and geographic financial data.

- ***Kentucky Regulated Segment (PPL)***

  Consists of the operations of LKE, which owns and operates regulated public utilities engaged in the generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas, representing primarily the activities of LG&E and KU. The Kentucky Regulated segment also includes interest expense related to the 2010 Equity Units that were issued to partially finance the acquisition of LKE.

(PPL, LKE, LG&E and KU)

LKE became a wholly owned subsidiary of PPL on November 1, 2010. LG&E and KU are engaged in the regulated generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, Virginia and Tennessee. LG&E also engages in the distribution and sale of natural gas in Kentucky. LG&E provides electric service to approximately 394,000 customers in Louisville and adjacent areas in Kentucky, covering approximately 700 square miles in 9 counties. LG&E provides natural gas service to approximately 319,000 customers in its electric service area and 7 additional counties in Kentucky. KU provides electric service to approximately 512,000 customers in 77 counties in central, southeastern and western Kentucky; approximately 29,000 customers in 5 counties in southwestern Virginia; and fewer than 10 customers in Tennessee, covering approximately 4,800 non-contiguous square miles. KU also sells wholesale electricity to 12 municipalities in Kentucky under load following contracts. In Virginia, KU operates under the name Old Dominion Power Company.

Acquisition by PPL

In September 2010, the KPSC approved a settlement agreement among PPL and all of the intervening parties to PPL's joint application to the KPSC for approval of its acquisition of ownership and control of LKE. In the settlement agreement, the parties agreed that LG&E and KU would commit that no base rate increases would take effect before January 1, 2013. The rate increases for LG&E and KU that took effect on August 1, 2010 (as described below) are not impacted by the settlement. Under the terms of the settlement, LG&E and KU retain the right to seek approval for the deferral of "extraordinary and uncontrollable costs." Interim rate adjustments will continue to be permissible during that period through existing fuel, environmental and demand side management recovery mechanisms. The agreement also substitutes an acquisition savings shared deferral mechanism for the previous commitment that LG&E and KU file a synergies plan with the KPSC post-closing. This mechanism, which will be in place until the earlier of five years or the first day of the year in which a base rate increase becomes effective, permits LG&E and KU to each earn up to a 10.75% return on equity. Any earnings above a 10.75% return on equity will be shared with customers on a 50%/50% basis. The KPSC Order and the settlement agreement contained a number of other commitments by LG&E and KU with regard to operations, workforce, community involvement and other matters.

In October 2010, both the VSCC and the TRA approved the transfer of control of LKE to PPL. Certain of these Orders contained additional commitments with regard to operations, workforce, community involvement and other matters.

Also in October 2010, the FERC approved the application for the transfer of control of the utilities. The approval includes various conditional commitments, such as a continuation of certain existing undertakings with intervenors in prior cases, an agreement not to terminate certain KU municipal customer contracts prior to January 2017, an exclusion of any transaction-related costs from wholesale energy and tariff customer rates to the extent that LG&E and KU have agreed not to seek recovery of the same transaction-related cost from retail customers and agreements to coordinate with intervenors in certain open or ongoing matters.

See Note 6 to the Financial Statements for additional information on regulatory matters related to the acquisition.

Franchises and Licenses

LG&E and KU provide electric delivery service, and LG&E provides natural gas distribution service, in their various service territories pursuant to certain franchises, licenses, statutory service areas, easements and other rights or permissions granted by state legislatures, cities or municipalities or other entities.

Competition

There are currently no other electric public utilities operating within the electric service areas of LKE. Neither the Kentucky General Assembly nor the KPSC has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of any legislative or regulatory actions regarding industry restructuring and their impact on LKE, which may be significant, cannot currently be predicted. Virginia, formerly a deregulated jurisdiction, has enacted legislation which implemented a hybrid model of cost-based regulation. KU's operations in Virginia have been and remain regulated.

Alternative energy sources such as electricity, oil, propane and other fuels provide indirect competition for natural gas revenues of LKE. Marketers may also compete to sell natural gas to certain large end-users. LG&E's natural gas tariffs include gas price pass-through mechanisms relating to its sale of natural gas as a commodity; therefore, customer natural gas purchases from alternative suppliers do not generally impact profitability. However, some large industrial and commercial customers may physically bypass LG&E's facilities and seek delivery service directly from interstate pipelines or other natural gas distribution systems.

In April 2010, the KPSC commenced a proceeding to investigate the regulatory, financial and operational aspects of natural gas retail competition programs and the potential benefits to Kentucky consumers. A number of entities, including LG&E, were parties to the proceeding. In December 2010, the KPSC issued an Order in the proceeding declining to endorse natural gas competition at the retail level, noting the existence of a number of transition or oversight costs and an uncertain level of economic benefits in such programs. With respect to existing natural gas transportation programs available to large commercial or industrial users, the Order indicates that the KPSC will review utilities' current tariff structures, user thresholds and other terms and conditions of such programs, as part of such utilities' next regular natural gas rate cases.

Operating Revenues

LG&E serves approximately 394,000 electricity customers, and its electric transmission and distribution system territory covers more than 700 square miles in 9 counties. KU serves approximately 541,000 electricity customers, and its transmission and distribution system territory covers more than 4,800 non-contiguous square miles in 82 counties. LG&E purchases, transports, distributes or stores natural gas for approximately 319,000 customers in Kentucky. LG&E's natural gas service area covers more than 3,600 square miles in 16 counties. In 2011, 27% of LG&E's annual natural gas throughput was purchased by large commercial and industrial customers directly from alternate suppliers for delivery through LG&E's distribution system.

(PPL)

Details of operating revenues for the Kentucky Regulated segment by customer class for the year ended December 31, 2011 and the two months ended December 31, 2010 are shown below.

	2011		2010	
	Revenue	% of Revenue	Revenue	% of Revenue
Industrial and commercial	$ 1,252	45	$ 209	42
Residential	1,087	39	219	44
Retail - other	269	9	42	9
Wholesale - municipal	104	4	15	3
Wholesale - other	81	3	8	2
Total	$ 2,793	100	$ 493	100

(LKE, LG&E and KU)

Details of operating revenues by customer class are shown below.

	Successor				Predecessor			
	Year Ended December 31, 2011		Two Months Ended December 31, 2010		Ten Months Ended October 31, 2010		Year Ended December 31, 2009	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
LKE								
Industrial and commercial	$ 1,252	45	$ 209	42	$ 997	45	$ 1,112	44
Residential	1,087	39	219	44	886	40	1,020	41
Retail - other	269	9	43	9	212	10	227	9
Wholesale - municipal	104	4	15	3	88	4	91	4
Wholesale - other (a)	81	3	8	2	31	1	51	2
Total	$ 2,793	100	$ 494	100	$ 2,214	100	$ 2,501	100
LG&E								
Industrial and commercial	$ 524	38	$ 92	36	$ 409	39	$ 475	37
Residential	561	41	113	44	446	42	540	42
Retail - other	130	10	22	9	98	9	109	9
Wholesale - other (a) (b)	149	11	27	11	104	10	148	12
Total	$ 1,364	100	$ 254	100	$ 1,057	100	$ 1,272	100
KU								
Industrial and commercial	$ 728	47	$ 117	44	$ 588	47	$ 637	47
Residential	526	34	106	40	440	35	480	35
Retail - other	139	9	21	8	114	9	118	9
Wholesale - municipal	104	7	15	6	88	7	91	7
Wholesale - other (a) (b)	51	3	4	2	18	2	29	2
Total	$ 1,548	100	$ 263	100	$ 1,248	100	$ 1,355	100

(a) Includes wholesale and transmission revenues.
(b) Includes intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.

(PPL, LKE, LG&E and KU)

Power Supply

At December 31, 2011, LKE owned, controlled or had an ownership interest in generating capacity (summer rating) of 8,185 MW, of which 3,352 MW related to LG&E and 4,833 MW related to KU, in Kentucky, Indiana, and Ohio. See "Item 2. Properties - Kentucky Regulated Segment" for a complete list of LKE's generating facilities.

The system capacity of LKE's owned or controlled generation is based upon a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changes in circumstances.

During 2011, LKE's power plants generated the following amounts of electricity.

	Thousands of MWhs					
	LKE		LG&E		KU	
Fuel Source	**Southeastern**	**Midwestern**	**Southeastern**	**Midwestern**	**Southeastern**	**Midwestern**
Coal (a)	33,897	1,132	15,291	783	18,606	349
Oil / Gas	497		175		322	
Hydro	290		208		82	
Total	34,684	1,132	15,674	783	19,010	349
Overall total (b)		35,816		16,457		19,359

(a) The Midwestern generation represents power generated by and purchased from OVEC.
(b) This generation represents a 1% increase for LKE, a 7% decrease for LG&E and an 8% increase for KU from 2010 output.

A significant portion of LG&E's and KU's generated electricity was used to supply its retail and municipal customer base.

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail native load. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail native load and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU.

See "Item 2. Properties - Kentucky Regulated Segment" for additional information regarding LG&E's and KU's plans for capital projects, subject to certain regulatory approvals, that are expected to provide 483 MW and 652 MW of additional electric generating capacity by 2016. LG&E and KU also anticipate retiring 563 MW and 234 MW of generating capacity by the end of 2015 to meet certain environmental regulations.

Fuel Supply

Coal is expected to be the predominant fuel used by LG&E and KU for baseload generation for the foreseeable future, with natural gas and oil being used for intermediate and peaking capacity and flame stabilization in coal-fired boilers.

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

LG&E and KU have entered into coal supply agreements with various suppliers for coal deliveries through 2016 and normally augment their coal supply agreements with spot market purchases.

For their existing units, LG&E and KU expect for the foreseeable future to purchase most of their coal from western Kentucky, southern Indiana, southern Illinois and Ohio. The use of high sulfur coal will increase in 2012 due to the installation of scrubbers at KU's E.W. Brown plant. In 2012 and beyond, LG&E and KU may purchase certain quantities of ultra-low sulfur content coal from Wyoming for blending at TC2. Coal is delivered to the generating plants by barge, truck and rail.

(PPL, LKE and LG&E)

Natural Gas Supply

Five underground natural gas storage fields, with a current working natural gas capacity of approximately 15 Bcf, are used in providing natural gas service to LG&E's firm sales customers. By using natural gas storage facilities, LG&E avoids the costs typically associated with more expensive pipeline transportation capacity to serve peak winter heating loads. Natural gas is stored during the summer season for withdrawal during the following winter heating season. Without this storage capacity, LG&E would be required to purchase additional natural gas and pipeline transportation services during winter months when customer demand increases and the prices for natural gas supply and transportation services are typically at their highest. Several suppliers under contracts of varying duration provide competitively priced natural gas. At December 31, 2011, LG&E had an 11 Bcf inventory balance of natural gas stored underground with a carrying value of $53 million.

LG&E has a portfolio of supply arrangements of varying terms with a number of suppliers designed to meet its firm sales obligations. These natural gas supply arrangements include pricing provisions that are market-responsive. In tandem with pipeline transportation services, these natural gas supplies provide the reliability and flexibility necessary to serve LG&E's natural gas customers.

LG&E purchases natural gas supply transportation services from two pipelines. LG&E has contracts with one pipeline that are subject to termination by LG&E between 2013 and 2018. Total winter capacity under these contracts is 195,000 MMBtu/day and summer capacity is 88,000 MMBtu/day. LG&E has a contract with the other pipeline that expires in October 2012. Total winter and summer capacity under this contract is 51,000 MMBtu/day during both seasons. That contract has been renegotiated through 2014 for a total capacity of 20,000 MMBtu/day during both the winter and summer seasons beginning in November 2012.

(PPL, LKE, LG&E and KU)

Rates and Regulation

LG&E is subject to the jurisdiction of the KPSC and the FERC, and KU is subject to the jurisdiction of the KPSC, the FERC, the VSCC and the TRA. LG&E and KU operate under a FERC-approved open access transmission tariff. LG&E and KU contract with the Tennessee Valley Authority, to act as their transmission reliability coordinator, and Southwest Power Pool, Inc. (SPP), to function as their independent transmission operator, pursuant to FERC requirements. The contract with SPP expires on August 31, 2012. LG&E and KU have received FERC approval to transfer from SPP to TranServ International, Inc. as their independent transmission operator beginning September 1, 2012. Approval from the KPSC is also required, and an application requesting approval was filed in January 2012.

LG&E's and KU's Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and notes payable) including certain adjustments to exclude non-regulated investments and environmental compliance costs recovered separately through the ECR mechanism. As such, regulatory assets generally earn a return.

KU's Virginia base rates are calculated based on a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities, except the levelized fuel factor, are excluded from the return on rate base utilized in the calculation of Virginia base rates; therefore, no return is earned on the related assets.

KU's rates to municipal customers for wholesale requirements are calculated based on annual updates to a rate formula that utilizes a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates; therefore, no return is earned on the related assets.

See Note 6 to the Financial Statements for additional information on cost recovery mechanisms.

Kentucky Rate Case

In January 2010, LG&E and KU filed applications with the KPSC requesting increases in electric base rates of approximately 12%, or $95 million for LG&E and $135 million for KU annually. In addition, LG&E requested an increase in its natural gas base rates of approximately 8%, or $23 million annually. In June 2010, LG&E and KU and all of the intervenors, except the Attorney General, agreed to a stipulation providing for increases in LG&E's electric base rates of $74 million annually, LG&E's natural gas base rates of $17 million annually and KU's electric base rates of $98 million annually. All parties, except the Attorney General, jointly filed a request with the KPSC to approve such stipulation. An Order in the proceeding was issued in July 2010, approving all of the provisions in the stipulation. The KPSC Order determined a return on equity range of 9.75% to 10.75% to be reasonable and noted that the stipulation was within such range. The new rates became effective on August 1, 2010.

(PPL, LKE and KU)

Virginia Rate Case

In April 2011, KU filed an application with the VSCC requesting an increase in electric base rates for its Virginia jurisdictional customers of $9 million annually, or 14%. In September 2011, a settlement stipulation was reached between KU and the VSCC Staff and filed with the VSCC for consideration. In October 2011, the VSCC approved the stipulation with two modifications that were accepted by KU. The VSCC issued an Order closing the proceeding in October 2011. The approved revenue increase was $7 million annually, based on a return on equity of 10.3%, with new base rates effective November 1, 2011.

FERC Wholesale Rate Case

In September 2008, KU filed an application with the FERC for increases in electric base rates applicable to wholesale power sales contracts or interchange agreements involving, collectively, 12 Kentucky municipalities. The application requested a shift from an all-in stated unit charge rate to an unbundled formula rate. This application was approved by the FERC, and annual adjustments are made to the rates charged to the Kentucky municipalities with applications being submitted each May and revised rates taking effect on July 1. In May 2011, KU submitted to the FERC the annual adjustments to the formula rate which incorporated certain proposed decreases. These rates became effective as of July 1, 2011, with no issues raised by the wholesale requirements customers or the FERC.

- ***International Regulated Segment*** *(PPL)*

  Includes WPD, a regulated electricity distribution company in the U.K.

WPD, through indirect wholly owned subsidiaries, operates four of the 15 distribution networks providing electricity service in the U.K. With the April 2011 acquisition of WPD Midlands, the total number of end-users served has more than doubled totaling 7.8 million across 21,585 square miles in Wales, southwest and central England. See Note 10 to the Financial Statements for additional information on the acquisition.

Details of revenue by category for the years ended December 31 are shown below.

	2011		2010		2009	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
Utility revenues (a)	$ 1,618	98	$ 727	96	$ 684	96
Energy-related businesses	35	2	34	4	32	4
Total	$ 1,653	100	$ 761	100	$ 716	100

(a) The amounts for 2011 are not comparable to 2010 or 2009 as WPD Midlands was acquired in April 2011. 2011 includes eight months of activity as WPD Midlands' results are recorded on a one-month lag.

WPD's energy-related businesses revenues include ancillary activities that support the distribution business, including telecommunications and real estate. WPD's telecommunication revenues are from the rental of fiber optic cables primarily attached to WPD's overhead electricity distribution network. WPD also provides meter services to businesses across the U.K.

Franchise and Licenses

WPD is authorized by Ofgem to provide electric distribution services within its concession areas and service territories, subject to certain conditions and obligations. For instance, WPD is subject to Ofgem regulation of the prices it can charge and the quality of service it must provide, and WPD can be fined or have its licenses revoked if it does not meet the mandated standard of service.

Competition

Although WPD operates in non-exclusive concession areas in the U.K., it currently faces little competition with respect to end-users connected to its network. WPD's four distribution businesses, WPD (South West), WPD (South Wales), WPD (West Midlands) and WPD (East Midlands), are thus regulated monopolies which operate under regulatory price controls.

Revenue and Regulation

The operations of WPD (South West), WPD (South Wales), WPD (East Midlands) and WPD (West Midlands) are regulated by Ofgem under the direction of the Gas and Electricity Markets Authority. The Electricity Act 1989 provides the fundamental legal framework of electricity companies and established licenses that required each of the Distribution Network Operators (DNOs) to develop, maintain and operate efficient distribution networks. Ofgem has established a price control mechanism that restricts the amount of revenue that can be earned by regulated business and provides for an increase or reduction in revenues based on incentives or penalties for exceeding or underperforming against pre-established targets.

This regulatory structure is an incentive-based regulatory structure in comparison to the U.S. utility businesses which operate under a cost-based regulatory framework. Under the UK regulatory structure, electricity distribution revenues are currently set every five years, but extending to eight years in the next price control period beginning in April 2015. The revenue that DNOs can earn in each of the five years is the sum of: i) the regulator's view of efficient operating costs, ii) a return on the capital from the RAV plus an annual adjustment for the inflation determined by Retail Price Index (RPI) for the prior calendar year, iii) a return of capital from the RAV (i.e. depreciation), and iv) certain pass-through costs over which the DNO has no control. Additionally, incentives are provided for a range of activities including exceeding certain reliability and customer service targets.

WPD is currently operating under DPCR5 which was completed in December 2009 and is effective for the period from April 1, 2010 through March 31, 2015. Ofgem allowed WPD (South West) and WPD (South Wales) an average increase in total revenues, before inflationary adjustments, of 6.9% in each of the five years and WPD Midlands an average increase in total revenues, before inflationary adjustments, of 4.5% in each of the five years. The revenue increase includes reimbursement for higher operating and capital costs to be incurred driven by additional requirements. In DPCR5, Ofgem decoupled WPD's allowed revenue from volume delivered over the five-year price control period. However, in any fiscal period WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the allowed revenue for a given period. Any under recovery would be recovered in the next regulatory year, but would not be recorded as a receivable in the current period. Any over recovery would be reflected in the current period as a liability and would not be included in revenue.

In addition to providing a base revenue allowance, Ofgem has established incentive mechanisms to provide significant opportunities to enhance overall returns by improving network efficiency, reliability and customer service. Some of the more significant incentive mechanisms under DPCR5 include:

- Interruptions Incentive Scheme (IIS) - This incentive has two major components: 1) Customer interruptions and 2) Customer minutes lost and is designed to incentivize the DNOs to invest and operate their networks to manage and reduce both the frequency and duration of power outages experienced by customers. The target for each DNO is based on an average of the data from the prior price control period.

  Beginning April 1, 2012, an additional customer satisfaction incentive mechanism will be implemented that will include a customer satisfaction survey, a complaints metric and a measure of stakeholder engagement. This incentive will replace the customer response telephone performance incentive that was effective April 1, 2010.

- Line Loss Incentive - This incentive existed in the prior price control review and is designed to incentivize DNOs to invest in lower loss equipment, to change the way they operate their systems to reduce losses, and to detect theft and unregistered meters. The targets for each of WPD's four DNOs are set based on their performance during DPCR4. In DPCR5, Ofgem introduced a two year lag in reporting losses to allow for all settlement data to be received. WPD has a $170 million liability recorded at December 31, 2011, calculated in accordance with an accepted methodology, related to the close-out of line losses for the prior price control period, DPCR4. Ofgem is currently consulting on the methodology used to calculate the final line loss incentive/penalty for DPCR4. In October 2011, Ofgem issued a consultation paper citing two potential changes to the methodology, both of which would result in a reduction of the liability; however, it is uncertain at this time whether any changes will be made. Ofgem is expected to make a decision before the end of 2012.

- Information Quality Incentive (IQI) - The IQI is designed to incentivize the DNOs to provide good quality information when they submit their business plans to Ofgem during the price control process and to execute the plan they submitted. The IQI eliminates the distinction between capital expenditure and operating expense and instead looks at total expenditure. Total expenditure is allocated 85% to "slow pot" which is added to RAV and recovered over 20 years through the regulatory depreciation of the RAV and 15% to "fast pot" which is recovered during the current price control review period. The IQI then provides for incentives or penalties at the end of DPCR5 based on the ratio of actual expenditures to the expenditures submitted to Ofgem that were the basis for the revenues allowed during the five-year price control review period.

At the beginning of DPCR5, WPD was awarded $301 million in incentive revenue of which $222 million will be included in revenue throughout the current price control period with the balance recovered over subsequent price control periods. Additional incentive revenue primarily from the IIS of $30 million related to performance for the regulatory year ended March 31, 2011 and will be included in revenues for the 2012-2013 regulatory year.

In October 2010, Ofgem announced a new pricing model that will be effective for the U.K. electricity distribution sector, including WPD, beginning April 2015. The model, known as RIIO (Revenues = Incentives + Innovation + Outputs), is intended to encourage investment in regulated infrastructure. Key components of the model are: an extension of the price review period to eight years, increased emphasis on outputs and incentives, enhanced stakeholder engagement including network customers, a stronger incentive framework to encourage more efficient investment and innovation, expansion of the current Low Carbon Network Fund to stimulate innovation and continued use of a single weighted average cost of capital. Ofgem has also indicated that the depreciation of the RAV for RAV additions after April 1, 2015 will change from 20 years to 45 years. At this time, management does not expect the effect of RIIO to be significant to WPD's financial results. See "Item 1A. Risk Factors - Risks Related to International Regulated Segment."

Customers

The majority of WPD's revenue is known as DUoS and is derived from charging energy suppliers for the delivery of electricity to end-users and thus its customers are the suppliers to those end-users. Ofgem requires that all licensed electricity distributors and suppliers become parties to the Distribution Connection and Use of System Agreement. This agreement sets out how creditworthiness will be determined and, as a result, whether the supplier needs to provide collateral.

- ***Pennsylvania Regulated Segment*** *(PPL)*

  Includes the regulated electric delivery operations of PPL Electric.

(PPL and PPL Electric)

PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. PPL Electric delivers electricity to approximately 1.4 million customers in a 10,000-square mile territory in 29 counties of eastern and central Pennsylvania. PPL Electric also provides electricity supply in this territory as a PLR.

Details of electric revenues by customer class for the years ended December 31, are shown below.

	2011		2010		2009	
	Revenue	**% of Revenue**	**Revenue**	**% of Revenue**	**Revenue**	**% of Revenue**
Residential	$ 1,266	67	$ 1,469	60	$ 1,473	45
Industrial	62	3	123	5	519	16
Commercial	431	23	588	24	1,173	35
Other (a) (b)	133	7	275	11	127	4
Total	$ 1,892	100	$ 2,455	100	$ 3,292	100

(a) Includes regulatory over- or under-recovery reconciliation mechanisms, pole attachment revenues, street lighting and net transmission revenues.
(b) Included in these amounts for 2011, 2010 and 2009 are $11 million, $7 million and $74 million of retail and wholesale electric to affiliate revenue which is eliminated in consolidation for PPL.

Franchise, Licenses and Other Regulations

PPL Electric is authorized to provide electric public utility service throughout its service area as a result of grants by the Commonwealth of Pennsylvania in corporate charters to PPL Electric and companies to which it has succeeded and as a result of certification by the PUC. PPL Electric is granted the right to enter the streets and highways by the Commonwealth subject to certain conditions. In general, such conditions have been met by ordinance, resolution, permit, acquiescence or other action by an appropriate local political subdivision or agency of the Commonwealth.

Competition

Pursuant to authorizations from the Commonwealth of Pennsylvania and the PUC, PPL Electric operates a regulated transmission and distribution monopoly in its service area. Accordingly, PPL Electric does not face competition in its electricity transmission and distribution businesses.

Rates and Regulation

Transmission and Distribution

PPL Electric's transmission facilities are within PJM, which operates the electric transmission network and electric energy market in the Mid-Atlantic and Midwest regions of the U.S.

PJM serves as a FERC-approved RTO to promote greater participation and competition in the region it serves. In addition to operating the electric transmission network, PJM also administers regional markets for energy, capacity and ancillary services. A primary objective of any RTO is to separate the operation of, and access to, the transmission grid from market participants that buy or sell electricity in the same markets. Electric utilities continue to own the transmission assets and to receive their share of transmission revenues, but the RTO directs the control and operation of the transmission facilities. PPL Electric is entitled to fully recover from customers the charges that it pays to PJM for transmission-related services.

PPL Electric's transmission revenues are billed in accordance with a FERC tariff that allows recovery of transmission costs incurred, a return on transmission-related plant and an automatic annual update.

PPL Electric's distribution base rates are calculated based on a return on rate base (net utility plant plus a cash working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions). In November 2004, Pennsylvania enacted the Alternative Energy Portfolio Standard Act (the AEPS), which requires electricity distribution companies and electricity generation suppliers, to obtain a portion of the electricity sold to retail customers in Pennsylvania from alternative energy sources. Under the default service procurement plans approved by the PUC, PPL Electric purchases all of the alternative energy generation supply it needs to comply with the AEPS.

Act 129 became effective in October 2008. The law creates an energy efficiency and conservation program, a demand side management program, smart metering technology requirements, new PLR generation supply procurement rules, remedies for market misconduct, and changes to the existing AEPS.

See "Regulatory Matters - Pennsylvania Activities" in Note 6 to the Financial Statements for additional information regarding Act 129, other legislative and regulatory impacts and PPL Electric's actions to provide default electricity supply for periods after 2009.

PLR

The Customer Choice Act requires electric distribution companies, including PPL Electric, to act as a PLR of electricity supply and provides that electricity supply costs will be recovered by such companies pursuant to regulations established by the PUC. As part of the PUC Final Order, PPL Electric agreed to supply this electricity at predetermined capped rates through 2009. To mitigate the risk that PPL Electric would not be able to obtain adequate energy supply at the "capped" rates, PPL Electric entered into full-requirement energy supply contracts with PPL EnergyPlus sufficient for PPL Electric to meet its PLR obligation through the end of 2009. Under these contracts, PPL EnergyPlus supplied PPL Electric's entire PLR load at predetermined prices equal to the capped generation rates that PPL Electric was authorized to charge its customers. Prior to the expiration of the rate caps, PPL Electric's customers had limited incentive to purchase generation supply from other providers because the contracts between PPL Electric and PPL EnergyPlus provided a below-market price for these customers. As a result, a limited amount of "shopping" occurred. Since the expiration of the rate caps, shopping has increased and at December 31, 2011, the following percentages of PPL Electric's customer load were shopping: 43% of residential, 82% of small commercial and industrial and 99% of large commercial and industrial customers. The PUC continues to be interested in the competitive market for electricity. See "Regulatory Matters - Pennsylvania Activities" in Note 6 to the Financial Statements for additional information.

PPL Electric's PLR obligation after 2009 is governed by the PUC pursuant to the Public Utility Code as amended by Act 129, PLR regulations and a policy statement regarding interpretation and implementation of those regulations. Effective January 1, 2010, PPL Electric's cost of electric generation is based on a competitive solicitation process. The PUC has approved PPL Electric's default service plan for the period January 2011 through May 2013, which includes 14 solicitations for supply beginning January 1, 2011 with a portion extending beyond May 2013. Pursuant to this plan, PPL Electric contracts for all of the electricity supply for residential, small commercial and small industrial customers, large commercial and large industrial customers who elect to take that service from PPL Electric. These solicitations include a mix of spot market purchases and long-term and short-term purchases ranging from five months to ten years to fulfill PPL Electric's obligation to provide customer supply as a PLR. To date, PPL Electric has conducted ten of its 14 planned competitive solicitations. See "Energy Purchase Commitments" in Note 15 to the Financial Statements for additional information regarding PPL Electric's solicitations for 2011 and its actions to provide default electricity supply for periods after 2011.

In addition, alternative suppliers have offered to provide generation supply in PPL Electric's service territory. Whether its customers purchase supply from these alternative suppliers or from PPL Electric as a PLR, the purchase of such supply has no impact on the financial results of PPL Electric. The cost to purchase PLR supply is passed directly by PPL Electric to its customers without markup.

<u>2010 Rate Case</u>

In March 2010, PPL Electric filed a request with the PUC to increase distribution rates by approximately $115 million or approximately 2.4% over PPL Electric's projected 2010 revenues, to be effective January 1, 2011. In December 2010, the PUC approved a settlement filed by the parties that provides for a rate increase of $77.5 million, or 1.6%, over PPL Electric's projected 2010 revenues. The approved rates became effective for service rendered on and after January 1, 2011. In January 2011, the PP&L Industrial Customers Alliance (PPLICA) filed a Petition for Reconsideration of the PUC's order regarding PPLICA's proposal for a special rate schedule for certain large commercial and industrial customers. The PUC granted reconsideration and assigned the case to an Administrative Law Judge. Hearings were held in September 2011. In January 2012, the Administrative Law Judge issued a recommended decision that the PUC deny PPLICA's proposal. PPLICA filed exceptions to the recommended decision. PPL Electric will file reply exceptions.

<u>FERC Formula Rates</u>

In March 2012, PPL Electric plans to file a request with the FERC seeking recovery, over a 34-year period beginning in June 2012, of its unrecovered regulatory asset related to the deferred state tax liability that existed at the time of the transition from the flow-through treatment of state income taxes to full normalization. This change in tax treatment occurred in 2008 as a result of prior FERC initiatives which transferred regulatory jurisdiction of certain transmission assets from the PUC to the FERC. A regulatory asset of $51 million related to this transition, classified as taxes recoverable through future rates, is included in "Other Noncurrent Assets - Regulatory assets" on the Balance Sheet. PPL Electric believes recoverability of this regulatory asset is probable based on FERC precedent in similar cases; however, it is reasonably possible that the FERC may limit the recovery of all or part of the claimed asset.

See Note 6 to the Financial Statements for additional information on rate mechanisms.

(PPL and PPL Energy Supply)

- ***<u>Supply Segment</u>***

  Owns and operates competitive domestic power plants to generate electricity; markets and trades this electricity, purchased power, and other energy-related products to competitive wholesale and retail markets; and acquires and develops competitive domestic generation projects. Consists primarily of the activities of PPL Generation and PPL EnergyPlus.

PPL Energy Supply has generation assets that are located in the northeastern and northwestern U.S. markets. The northeastern generating capacity is located primarily in Pennsylvania within PJM and northwestern generating capacity is located in Montana. PPL Energy Supply enters into energy and energy-related contracts to hedge the variability of expected cash flows associated with their generating units and marketing activities, as well as for trading purposes. PPL EnergyPlus sells the electricity produced by PPL Energy Supply's generation plants based on prevailing market rates.

Details of revenue by category for the years ended December 31, are shown below.

	2011		2010		2009	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
Energy						
Wholesale (a)	$ 5,240	82	$ 4,347	85	$ 4,761	90
Retail	727	11	415	8	152	3
Trading	(2)		2		17	
Total energy	5,965	93	4,764	93	4,930	93
Energy-related businesses (b)	464	7	364	7	379	7
Total	$ 6,429	100	$ 5,128	100	$ 5,309	100

(a) Included in these amounts for 2011, 2010, and 2009 are $26 million, $320 million and $1.8 billion of wholesale electric sales to an affiliate which are eliminated in consolidation for PPL.
(b) Energy-related businesses revenues include activities that primarily support the generation, marketing and trading businesses. These activities include developing renewable energy projects and providing energy-related products and services to commercial and industrial customers through its mechanical contracting and services subsidiaries. In addition to these amounts, for 2011, 2010, and 2009, PPL has $8 million, $11 million and $12 million of revenue which is not applicable to PPL Energy Supply.

Power Supply

PPL Energy Supply owned or controlled generating capacity (summer rating) of 10,508 MW at December 31, 2011. The system capacity of PPL Energy Supply's owned or controlled generation is based upon a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changes in circumstances. Generating capacity controlled by PPL Generation and other PPL Energy Supply subsidiaries includes power obtained through PPL EnergyPlus' tolling or power purchase agreements (including Ironwood and other facilities that consist of NUGs, wind farms and landfill gas facilities). See "Item 2. Properties - Supply Segment" for a complete listing of PPL Energy Supply's generating capacity.

During 2011, PPL Energy Supply's power plants, excluding renewable facilities that are discussed separately below, generated the following amounts of electricity.

	Thousands of MWhs		
Fuel Source	Northeastern	Northwestern	Total
Nuclear	15,627		15,627
Oil / Gas (a)	9,033		9,033
Coal	21,612	3,842	25,454
Hydro (a)	682	3,697	4,379
Total (b)	46,954	7,539	54,493

(a) Northeastern includes generation from certain non-core generation facilities that were sold in March 2011. See Note 9 to the Financial Statements for additional information.
(b) This generation represents a 4% decrease from 2010 output, largely attributable to PPL Susquehanna's dual-unit turbine blade replacement outages and economic reductions in coal unit output in the western U.S. in 2011.

PPL Energy Supply's generation subsidiaries are EWGs that sell electricity into wholesale markets. EWGs are subject to regulation by the FERC, which has authorized these EWGs to sell the electricity generated at market-based prices. This electricity is sold to PPL EnergyPlus under FERC-jurisdictional power purchase agreements. PPL Susquehanna is subject to the jurisdiction of the NRC in connection with the operation of the Susquehanna nuclear units. Certain of PPL Energy Supply's other subsidiaries are subject to the jurisdiction of the NRC in connection with the operation of their fossil plants with respect to certain level and density monitoring devices. Certain operations of PPL Generation's subsidiaries are also subject to OSHA and comparable state statutes.

See Note 9 to the Financial Statements for information on the 2011 sale of certain non-core generation facilities consisting of natural gas-fired facilities in Wallingford, Connecticut and University Park, Illinois and an equity interest in Safe Harbor Water Power Corporation, which owns a hydroelectric facility in Conestoga, Pennsylvania, the 2010 sale of the Long Island Generation business, consisting of plants in New York and the 2010 and 2009 sales of hydroelectric facilities located in Maine.

Substantially all of PPL Energy Supply's total expected generation in 2012 is anticipated to be used to meet its committed contractual sales. PPL Energy Supply has also entered into commitments of varying quantities and terms for the years 2013 and beyond. PPL EnergyPlus purchases the capacity, energy and RECs from two wind farms in Pennsylvania with a combined installed capacity of 50 MW. These contracts extend through 2027.

PPL Energy Supply subsidiaries own or control renewable energy projects located in Pennsylvania, New Jersey, Vermont, Connecticut and New Hampshire with a generating capacity (summer rating) of 65 MW. PPL EnergyPlus sells the energy, capacity and RECs produced by these plants into the wholesale market as well as to commercial, industrial and institutional customers. During 2011, the projects owned and operated by these PPL Energy Supply subsidiaries generated 166,000 MWhs.

See "Item 2. Properties - Supply Segment" for additional information regarding PPL Generation's plans for capital projects in Pennsylvania, Montana, and New Jersey that are expected to provide 191 MW of additional electric generating capacity by 2013.

Fuel Supply

PPL EnergyPlus acts as agent for PPL Generation to procure and optimize its various fuels.

Coal

Pennsylvania

PPL EnergyPlus actively manages PPL's coal requirements by purchasing coal principally from mines located in central and northern Appalachia.

During 2011, PPL Generation purchased 7.1 million tons of coal required for its wholly owned Pennsylvania plants under short-term and long-term contracts. Contracts currently in place are expected to provide 7.9 million tons of coal in 2012. The amount of coal in inventory varies from time to time depending on market conditions and plant operations.

PPL Generation, by and through its agent PPL EnergyPlus, has agreements in place that will provide more than 31 million tons of PPL Generation's projected annual coal needs for the Pennsylvania power plants from 2012 through 2018.

A PPL Generation subsidiary owns a 12.34% interest in the Keystone plant and a 16.25% interest in the Conemaugh plant. PPL Generation owns a 12.34% interest in Keystone Fuels, LLC and a 16.25% interest in Conemaugh Fuels, LLC. The Keystone plant contracts with Keystone Fuels, LLC for its coal requirements, which provided 4.4 million tons of coal to the Keystone plant in 2011. The Conemaugh plant requirements are purchased under contract from Conemaugh Fuels, LLC, which provided 4.5 million tons of coal to the Conemaugh plant in 2011.

All PPL Generation Pennsylvania coal plants have scrubbers installed. Limestone is necessary to operate the scrubbers. Acting as agent for PPL Brunner Island, LLC and PPL Montour, LLC, PPL EnergyPlus has entered into long-term contracts with limestone suppliers that will provide for those plants' limestone requirements through 2014. During 2011, 529,000 tons of limestone were delivered to Brunner Island and Montour under long-term contracts. Annual limestone requirements approximate 600,000 tons.

Montana

PPL Montana has a 50% leasehold interest in Colstrip Units 1 and 2, and a 30% leasehold interest in Colstrip Unit 3. NorthWestern owns a 30% leasehold interest in Colstrip Unit 4. PPL Montana and NorthWestern have a sharing agreement to govern each party's responsibilities regarding the operation of Colstrip Units 3 and 4, and each party is responsible for 15% of the respective operating and construction costs, regardless of whether a particular cost is specified to Colstrip Unit 3 or 4. However, each party is responsible for its own fuel-related costs. PPL Montana, along with the other owners, is party to contracts to purchase 100% of its coal requirements with defined coal quality characteristics and specifications. PPL Montana, along with the other owners, has a long-term purchase and supply agreement with the current supplier for Units 1 and 2, which provides these units 100% of their coal requirements through December 2014, and at least 85% of such requirements from January 2015 through December 2019. The coal supply contract for Unit 3's requirements is in effect through December 2019.

These units were built with scrubbers and PPL Montana has entered into a long-term contract to purchase the lime requirements for these units. The contract extends through December 2030.

Coal supply contracts are in place to purchase low-sulfur coal with defined quality characteristics and specifications for PPL Montana's Corette plant. The contracts covered 100% of the plant's coal requirements in 2011, and similar contracts are in place to supply 100% of the expected coal requirements through 2012.

Oil and Natural Gas

Pennsylvania

PPL Generation's Martins Creek Units 3 and 4 burn both oil and natural gas. During 2011, 100% of the physical gas requirements for the Martins Creek units were purchased on the spot market while oil requirements were supplied from inventory. At December 31, 2011, there were no long-term agreements for oil or natural gas for these units.

Short-term and long-term gas transportation contracts are in place for approximately 38% of the maximum daily requirements of the Lower Mt. Bethel facility. During 2011, 100% of the physical gas requirements for Lower Mt. Bethel were purchased on the spot market.

In 2008, PPL EnergyPlus acquired the rights to an existing long-term tolling agreement associated with the capacity and energy of the Ironwood facility. PPL EnergyPlus has long-term transportation contracts to serve approximately 25% of Ironwood's maximum daily requirements, which began in the fourth quarter of 2010. Ironwood will be served through a combination of transportation capacity release transactions and delivered supply to the plant. PPL EnergyPlus currently has no long-term physical supply agreements to purchase natural gas for Ironwood. During 2011, 100% of the physical gas requirements for Ironwood were purchased on the spot market.

Nuclear

The nuclear fuel cycle consists of several material and service components: the mining and milling of uranium ore to produce uranium concentrates; the conversion of these concentrates into uranium hexafluoride, a gas component; the enrichment of the hexafluoride gas; the fabrication of fuel assemblies for insertion and use in the reactor core; and the temporary storage and final disposal of spent nuclear fuel.

PPL Susquehanna has a portfolio of supply contracts, with varying expiration dates, for nuclear fuel materials and services. These contracts are expected to provide sufficient fuel to permit Unit 1 to operate into the first quarter of 2016 and Unit 2 to operate into the first quarter of 2017. PPL Susquehanna anticipates entering into additional contracts to ensure continued operation of the nuclear units.

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

In 1996, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court) ruled that the Nuclear Waste Policy Act imposed on the DOE an unconditional obligation to begin accepting spent nuclear fuel on or before January 31, 1998. In 1997, the D.C. Circuit Court ruled that the contracts between the utilities and the DOE provide a potentially adequate remedy if the DOE failed to begin accepting spent nuclear fuel by January 31, 1998. The DOE did not, in fact, begin to accept spent nuclear fuel by that date. The DOE continues to contest claims that its breach of contract resulted in recoverable damages. In January 2004, PPL Susquehanna filed suit in the U.S. Court of Federal Claims for unspecified damages suffered as a result of the DOE's breach of its contract to accept and dispose of spent nuclear fuel. In May 2011, the parties entered into a settlement agreement which resolved all claims of PPL Susquehanna through December 2013. Under the settlement agreement, PPL Susquehanna received $50 million for its share of claims to recover costs to store spent nuclear fuel at the Susquehanna plant through September 30, 2009, and recognized a credit to "Fuel" expense in the Statement of Income in the second quarter of 2011. PPL Susquehanna also will be eligible to receive payment of annual claims for allowed costs, as set forth in the settlement agreement, that are incurred thereafter through the December 31, 2013 termination date of the settlement agreement. In exchange, PPL Susquehanna has waived any claims against the United States government for costs paid or injuries sustained related to storing spent nuclear fuel at the Susquehanna plant through December 31, 2013.

Energy Marketing

PPL EnergyPlus sells the capacity and electricity produced by PPL Generation subsidiaries, along with purchased power, FTRs, natural gas, oil, uranium, emission allowances and RECs in competitive wholesale and competitive retail markets.

Purchases and sales at the wholesale level are made at competitive prices under FERC market-based prices. PPL EnergyPlus is licensed to provide retail electric supply to customers in Delaware, Maryland, Montana, New Jersey and Pennsylvania and provides retail natural gas supply to customers in Pennsylvania, New Jersey, Delaware and Maryland. Within the constraints of its hedging policy, PPL EnergyPlus actively manages its portfolios of energy and energy-related products to optimize their value and to limit exposure to price fluctuations. See "Commodity Volumetric Activity" in Note 19 to the Financial Statements for the strategies PPL Energy Supply employs to optimize the value of its wholesale and retail energy portfolio.

Competition

Since the early 1990s, there has been increased competition in U.S. energy markets because of federal and state competitive market initiatives. While some states, such as Pennsylvania and Montana, have created a competitive market for electricity generation, other states continue to consider different types of regulatory initiatives concerning competition in the power and gas industry. Some states that were considering creating competitive markets have slowed their plans or postponed further consideration. In addition, states that have created competitive markets have, from time to time, considered new market rules and re-regulation measures that could result in more limited opportunities for competitive energy suppliers. The activity around re-regulation, however, has slowed due to the current environment of declining power prices. As such, the markets in which PPL Energy Supply participates are highly competitive.

PPL Energy Supply faces competition in wholesale markets for available energy, capacity and ancillary services. Competition is impacted by electricity and fuel prices, congestion along the power grid, new market entrants, construction by others of generating assets, technological advances in power generation, the actions of environmental and other regulatory authorities and other factors. PPL Energy Supply primarily competes with other electricity suppliers based on its ability to aggregate generation supply at competitive prices from different sources and to efficiently utilize transportation from third-party pipelines and transmission from electric utilities and ISOs. Competitors in wholesale power markets include regulated utilities, industrial companies, NUGs, competitive subsidiaries of regulated utilities and other energy marketers. See "Item 1A. Risk Factors - Risks Related to Supply Segment" and PPL's and PPL Energy Supply's "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" for more information concerning the risks faced with respect to competitive energy markets.

Franchise and Licenses

See "Energy Marketing" above for a discussion of PPL EnergyPlus' licenses in various states. PPL EnergyPlus also has an export license from the DOE to sell capacity and/or energy to electric utilities in Canada.

PPL Susquehanna operates Units 1 and 2 pursuant to NRC operating licenses that expire in 2042 for Unit 1 and in 2044 for Unit 2.

In 2008, a PPL Energy Supply subsidiary, PPL Bell Bend, LLC, submitted a COLA to the NRC for a new nuclear generating unit (Bell Bend) to be built adjacent to the Susquehanna plant. Also in 2008, the COLA was accepted for review by the NRC. PPL Bell Bend, LLC does not expect the NRC review of the Bell Bend project to be completed prior to 2014. See Note 8 to Financial Statements for additional information.

PPL Holtwood operates the Holtwood hydroelectric generating plant pursuant to a FERC-granted license that expires in 2030. In October 2009, the FERC approved the request to expand the Holtwood plant. See Note 8 to the Financial Statements for additional information. PPL Holtwood operates the Wallenpaupack hydroelectric generating plant pursuant to a FERC-granted license that expires in 2044.

In 2010, PPL Holtwood owned one-third of the capital stock of Safe Harbor Water Power Corporation (Safe Harbor), which held a project license that would extend operation of its hydroelectric generating plant until 2030. In March 2011, PPL Energy Supply subsidiaries completed the sale of their ownership interests in Safe Harbor and two other non-core generating facilities. See Note 9 to the Financial Statements for additional information.

The 11 hydroelectric facilities and one storage reservoir in Montana are licensed by the FERC. The Thompson Falls and Kerr licenses expire in 2025 and 2035, the licenses for the nine Missouri-Madison facilities expire in 2040, and the license for the Mystic facility expires in 2050.

In connection with the relicensing of these generating facilities, applicable law permits the FERC to relicense the original licensee or license a new licensee or allow the U.S. government to take over the facility. If the original licensee is not relicensed, it is compensated for its net investment in the facility, not to exceed the fair value of the property taken, plus reasonable damages to other property affected by the lack of relicensing. See Note 15 to the Financial Statements for additional information on the Kerr Dam license.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

SEASONALITY

The demand for and market prices of electricity and natural gas are affected by weather. As a result, the Registrants' operating results in the future may fluctuate substantially on a seasonal basis, especially when more severe weather conditions such as heat waves or winter storms make such fluctuations more pronounced. The pattern of this fluctuation may change depending on the type and location of the facilities owned and the terms of contracts to purchase or sell electricity.

FINANCIAL CONDITION

See the Registrant's "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for this information.

CAPITAL EXPENDITURE REQUIREMENTS

See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in the Registrants' "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for information concerning projected capital expenditure requirements for 2012 through 2016. See Note 15 to the Financial Statements for additional information concerning the potential impact on capital expenditures from environmental matters.

ENVIRONMENTAL MATTERS

The Registrants are subject to certain existing and developing federal, regional, state and local laws and regulations with respect to air and water quality, land use and other environmental matters. The EPA is in the process of proposing and finalizing an unprecedented number of environmental regulations that will directly affect the electric industry. These initiatives cover air, water and waste. See PPL's, PPL Energy Supply's, LKE's, LG&E's and KU's "Financial Condition - Liquidity and Capital Resources" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Forecasted Uses of Cash - Capital Expenditures" for information concerning environmental capital expenditures during 2011 and projected environmental capital expenditures for the years 2012-2016. Also, see "Environmental Matters" in Note 15 to the Financial Statements for additional information. To comply with primarily air-related environmental requirements, PPL's forecast for capital expenditures reflects a best estimate projection of expenditures that may be required within the next five years. Such projections are $1.6 billion for LG&E, $1.5 billion for KU and $130 million for PPL Energy Supply. Actual costs (including capital, allowance purchases and operational modifications) may be significantly lower or higher depending on the final requirements and market conditions. Environmental compliance costs incurred by LG&E and KU are subject to recovery through a rate recovery mechanism. See Note 6 to the Financial Statements for additional information.

The Registrants are unable to predict the ultimate effect of evolving environmental laws and regulations upon their existing and proposed facilities and operations and competitive positions. In complying with statutes, regulations and actions by regulatory bodies involving environmental matters, including, among other things, air and water quality, GHG emissions, hazardous and solid waste management and disposal, and regulation of toxic substances, PPL's and LKE's subsidiaries may be required to modify, replace or cease operating certain of their facilities. PPL's and LKE's subsidiaries may also incur significant capital expenditures and operating expenses in amounts which are not now determinable, but could be significant.

EMPLOYEE RELATIONS

At December 31, 2011, PPL and its subsidiaries had the following full-time employees.

PPL Energy Supply	
PPL Generation	2,812
PPL EnergyPlus (a)	1,864
Total PPL Energy Supply	4,676
PPL Electric	2,304
LKE	
KU	940
LG&E	966
LKS	1,285
Total LKE	3,191
PPL Global (primarily WPD)	6,264
PPL Services and other	1,287
Total PPL	17,722

(a) Includes labor union employees of mechanical contracting subsidiaries, whose numbers tend to fluctuate due to the nature of this business.

Approximately 5,600 employees, or 49%, of PPL's domestic workforce are members of labor unions, with four International Brotherhood of Electrical Workers (IBEW) labor unions representing approximately 4,300 employees. The bargaining agreement with the largest IBEW labor union, which expires in May 2014, covers approximately 1,500 PPL Electric, 1,600 PPL Energy Supply and 400 other employees. Approximately 700 employees of LG&E and 70 employees of KU are represented by an IBEW labor union. Both LG&E and KU have three-year labor agreements with the IBEW, which expire in November 2014 and August 2012. KU's agreement includes annual wage reopeners. Approximately 80 employees of KU are represented by a United Steelworkers of America (USWA) labor union. KU and the USWA have agreed in principle on a labor agreement effective through August 2014, which was ratified by the members in February 2012. PPL Montana's largest bargaining unit, an IBEW labor union, represents approximately 270 employees at the Colstrip plant. The four-year labor agreement expires in April 2012. PPL Montana's second largest bargaining unit, also an IBEW labor union, represents approximately 80 employees at hydroelectric facilities and the Corette plant. In 2011, this four-year labor agreement was extended one year and expires in April 2013.

Approximately 4,100 or 65%, of PPL's U.K. workforce are members of labor unions. WPD recognizes four unions, the largest of which represents 26% of its union workforce. WPD's Electricity Business Agreement, which covers approximately 4,000 union employees, may be amended by agreement between WPD and the unions and is terminable with 12 months notice by either side.

See "Separation Benefits - International Regulated Segment" in Note 10 to the Financial Statements for information on a 2011 reorganization designed to transition the WPD Midlands companies to the same operating structure as WPD (South West) and WPD (South Wales). See "Separation Benefits" in Note 13 to the Financial Statements for information on a 2009 cost reduction initiative, which resulted in the elimination of approximately 200 domestic management and staff positions at PPL.

AVAILABLE INFORMATION

PPL's Internet website is www.pplweb.com. On the Investor Center page of that website, PPL provides access to all SEC filings of the Registrants (including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(d) or 15(d)) free of charge, as soon as reasonably practicable after filing with the SEC. Additionally, the Registrants' filings are available at the SEC's website (www.sec.gov) and at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549, or by calling 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

The Registrants face various risks associated with their businesses. Our businesses, financial condition, cash flows or results of operations could be materially adversely affected by any of these risks. In addition, this report also contains forward-looking and other statements about our businesses that are subject to numerous risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 15 to the Financial Statements for more information concerning the risks described below and for other risks, uncertainties and factors that could impact our businesses and financial results.

As used in this Item 1A., the terms "we," "our" and "us" generally refer to PPL and its consolidated subsidiaries taken as a whole, or to PPL Energy Supply and its consolidated subsidiaries taken as a whole within the Supply segment discussions, or PPL Electric and its consolidated subsidiaries taken as a whole within the Pennsylvania Regulated segment discussion, or LKE and its consolidated subsidiaries taken as a whole within the Kentucky Regulated segment discussion.

Risks Related to All Segments

(*PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU*)

We plan to selectively pursue growth of generation, transmission and distribution capacity, which involves a number of uncertainties and may not achieve the desired financial results.

We plan to pursue expansion of our generation, transmission and distribution capacity over the next several years through power uprates at certain of our existing power plants, the potential construction of new power plants, the potential acquisition of existing plants, the potential construction or acquisition of transmission and distribution projects and capital investments to upgrade transmission and distribution infrastructure. We will rigorously scrutinize opportunities to expand our generating capability and may determine not to proceed with any expansion. These types of projects involve numerous risks. Any planned power uprates could result in cost overruns, reduced plant efficiency and higher operating and other costs. With respect to the construction of new plants, the acquisition of existing plants, or the construction or acquisition of transmission and distribution projects, we may be required to expend significant sums for preliminary engineering, permitting, resource exploration, legal and other expenses before it can be established whether a project is feasible, economically attractive or capable of being financed. Expansion in our regulated businesses is dependent on future load or service requirements and subject to applicable regulatory processes. The success of both a new or acquired project would likely be contingent, among other things, upon the negotiation of satisfactory operating contracts, obtaining acceptable financing and maintaining acceptable credit ratings, as well as receipt of required and appropriate governmental approvals. If we were unable to complete construction or expansion of a project, we may not be able to recover our investment in the project. Furthermore, we might be unable to operate any new or acquired plants as efficiently as projected, which could result in higher than projected operating and other costs and reduced earnings.

Adverse conditions in the economic and financial markets in which we operate could adversely affect our financial condition and results of operations.

Adverse conditions in the financial markets during 2008 and the associated contraction of liquidity in the wholesale energy markets contributed significantly to declines in wholesale energy prices, significantly impacting our earnings during the second half of 2008 and the first half of 2009. The breadth and depth of these negative economic conditions had a wide-ranging impact on the U.S. and international business environment, including our businesses. As a result of the economic downturn, demand for energy commodities has declined significantly. This reduced demand will continue to impact the key domestic wholesale energy markets we serve (such as PJM) and our Pennsylvania and Kentucky utility businesses. The combination of lower demand for power and natural gas and other fuels has put downward price pressure on wholesale energy markets in general, further impacting our energy marketing results. In general, current economic and commodity market conditions will continue to challenge predictability regarding our unhedged future energy margins, liquidity and overall financial condition.

Our businesses are heavily dependent on credit and capital, among other things, for capital expenditures and providing collateral to support hedging in our energy marketing business. Global bank credit capacity declined and the cost of renewing or establishing new credit facilities increased significantly in 2008, primarily as a result of general credit concerns nationwide, thereby introducing uncertainties as to our businesses' ability to enter into long-term energy commitments or reliably estimate the longer-term cost and availability of credit. Although bank credit conditions have improved since mid-2009, and we currently expect to have adequate access to needed credit and capital based on current conditions, deterioration in the financial markets could adversely affect our financial condition and liquidity. Additionally, regulations to be adopted to implement the Dodd-Frank Act may impose requirements on our businesses and the businesses of others with whom we contract such as banks or other counterparties, or simply result in increased costs to conduct our business or access sources of capital and liquidity upon which the conduct of our businesses is dependent.

Our operating revenues could fluctuate on a seasonal basis, especially as a result of extreme weather conditions.

Our businesses are subject to seasonal demand cycles. For example, in some markets demand for, and market prices of, electricity peak during hot summer months, while in other markets such peaks occur in cold winter months. As a result, our overall operating results in the future may fluctuate substantially on a seasonal basis if weather conditions such as heat waves, extreme cold, unseasonably mild weather or severe storms occur. The patterns of these fluctuations may change depending on the type and location of our facilities and the terms of our contracts to sell electricity.

Operating expenses could be affected by weather conditions, including storms, as well as by significant man-made or accidental disturbances, including terrorism or natural disasters.

Weather and these other factors can significantly affect our profitability or operations by causing outages, damaging infrastructure and requiring significant repair costs. Storm outages and damage often directly decrease revenues or increase expenses, due to reduced usage and higher restoration charges. In addition, weather and other disturbances may affect capital markets and general economic conditions and impact future growth.

Our businesses are subject to physical, market and economic risks relating to potential effects of climate change.

Climate change may produce changes in weather or other environmental conditions, including temperature or precipitation levels, and thus may impact consumer demand for electric power. Temperature increases could result in increased overall electricity consumption or peaks and precipitation changes could result in altered availability of water for hydro generation or plant cooling operations. These or other meteorological changes could lead to increased operating costs, capital expenses or power purchase costs. Greenhouse gas regulation could increase the cost of electric power, particularly power generated by fossil-fuels, and such increases could have a depressive effect on regional economies. Reduced economic and consumer activity in our service areas -- both generally and specific to certain industries and consumers accustomed to previously lower cost power -- could reduce demand for the power we generate, market and deliver. Also, demand for our energy-related services could be similarly lowered should consumers' preferences or market factors move toward favoring energy efficiency, low-carbon power sources or reduced electric usage generally.

We cannot predict the outcome of the legal proceedings and investigations currently being conducted with respect to our current and past business activities. An adverse determination could have a material adverse effect on our financial condition, results of operations or cash flows.

We are involved in legal proceedings, claims and litigation and subject to ongoing state and federal investigations arising out of our business operations, the most significant of which are summarized in "Legal Matters," "Regulatory Issues" and "Environmental Matters - Domestic" in Note 15 to the Financial Statements. We cannot predict the ultimate outcome of these matters, nor can we reasonably estimate the costs or liabilities that could potentially result from a negative outcome in each case.

We could be negatively affected by rising interest rates, downgrades to our bond credit ratings or other negative developments in our ability to access capital markets.

In the ordinary course of business, we are reliant upon adequate long-term and short-term financing means to fund our significant capital expenditures, debt interest or maturities and operating needs. As a capital-intensive business, we are sensitive to developments in interest rate levels; credit rating considerations; insurance, security or collateral requirements; market liquidity and credit availability and refinancing opportunities necessary or advisable to respond to credit market changes. Changes in these conditions could result in increased costs and decreased liquidity to our regulated utility businesses.

A downgrade in our credit ratings could negatively affect our ability to access capital and increase the cost of maintaining our credit facilities and any new debt.

Credit ratings assigned by Moody's, Fitch and S&P to our businesses and their financial obligations have a significant impact on the cost of capital incurred by our businesses. Although we do not expect these ratings to limit our ability to fund short-term liquidity needs or access new long-term debt, any ratings downgrade could increase our short-term borrowing costs and negatively affect our ability to fund short-term liquidity needs and access new long-term debt. See "Item 7. Management's

Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Liquidity and Capital Resources - Ratings Triggers" for additional information on the impact of a downgrade in our credit rating.

Significant increases in our operation and maintenance expenses, including health care and pension costs, could adversely affect our future earnings and liquidity.

We continually focus on limiting and reducing where possible our operation and maintenance expenses. However, we expect to continue to face increased cost pressures in our operations. Increased costs of materials and labor may result from general inflation, increased regulatory requirements (especially in respect of environmental regulations), the need for higher-cost expertise in the workforce or other factors. In addition, pursuant to collective bargaining agreements, we are contractually committed to provide specified levels of health care and pension benefits to certain current employees and retirees. We provide a similar level of benefits to our management employees. These benefits give rise to significant expenses. Due to general inflation with respect to such costs, the aging demographics of our workforce and other factors, we have experienced significant health care cost inflation in recent years, and we expect our health care costs, including prescription drug coverage, to continue to increase despite measures that we have taken and expect to take to require employees and retirees to bear a higher portion of the costs of their health care benefits. In addition, we expect to continue to incur significant costs with respect to the defined benefit pension plans for our employees and retirees. The measurement of our expected future health care and pension obligations, costs and liabilities is highly dependent on a variety of assumptions, most of which relate to factors beyond our control. These assumptions include investment returns, interest rates, health care cost trends, benefit improvements, salary increases and the demographics of plan participants. If our assumptions prove to be inaccurate, our future costs and cash contribution requirements to fund these benefits could increase significantly.

We may be required to record impairment charges in the future for certain of our investments, which could adversely affect our earnings.

Under GAAP, we are required to test our recorded goodwill for impairment on an annual basis, or more frequently if events or circumstances indicate that these assets may be impaired. Although no goodwill impairments were recorded based on our annual review in the fourth quarter of 2011, we are unable to predict whether future impairment charges may be necessary.

We also review our long-lived assets, including equity investments, for impairment when events or circumstances indicate that the carrying value of these assets may not be recoverable. See Notes 9 and 18 to the Financial Statements for additional information on impairment charges taken during the reporting periods. We are unable to predict whether impairment charges, or other losses on sales of other assets or businesses, may occur in future years.

We may incur liabilities in connection with discontinued operations.

In connection with various divestitures, we have indemnified or guaranteed parties against certain liabilities and with respect to certain transactions. These indemnities and guarantees relate to, among other things, liabilities which may arise with respect to the period during which we or our subsidiaries operated the divested business, and to certain ongoing contractual relationships and entitlements with respect to which we or our subsidiaries made commitments in connection with the divestiture.

We are subject to liability risks relating to our generation, transmission and distribution businesses.

The conduct of our physical and commercial operations subjects us to many risks, including risks of potential physical injury, property damage or other financial liability, caused to or caused by employees, customers, contractors, vendors, contractual or financial counterparties and other third parties.

Our facilities may not operate as planned, which may increase our expenses or decrease our revenues and, thus, have an adverse effect on our financial performance.

Operation of power plants, transmission and distribution facilities, information technology systems and other assets and activities subjects us to a variety of risks, including the breakdown or failure of equipment, accidents, security breaches, viruses or outages affecting information technology systems, labor disputes, obsolescence, delivery/transportation problems and disruptions of fuel supply and performance below expected levels. These events may impact our ability to conduct our businesses efficiently or lead to increased costs, expenses or losses. Operation of our delivery systems below our expectations may result in lost revenue or increased expense, including higher maintenance costs which may not be recoverable from customers. Planned and unplanned outages at our power plants may require us to purchase power at then-current market prices to satisfy our commitments or, in the alternative, pay penalties and damages for failure to satisfy them.

Although we maintain customary insurance coverage for certain of these risks, no assurance can be given that such insurance coverage will be sufficient to compensate us fully in the event losses occur.

The operation of our businesses is subject to cyber-based security and integrity risk.

Numerous functions affecting the efficient operation of our businesses are dependent on the secure and reliable storage, processing and communication of electronic data and the use of sophisticated computer hardware and software systems. The operation of our generation plants, including the Susquehanna nuclear plant, and of our energy and fuel trading businesses, as well as our transmission and distribution operations are all reliant on cyber-based technologies and, therefore, subject to the risk that such systems could be the target of disruptive actions, principally by terrorists or vandals, or otherwise be compromised by unintentional events. As a result, operations could be interrupted, property could be damaged and customer information lost or stolen, causing us to incur significant losses of revenues, other substantial liabilities and damages and costs to replace or repair damaged equipment.

We are subject to risks associated with federal and state tax laws and regulations.

Changes in tax law as well as the inherent difficulty in quantifying potential tax effects of business decisions could negatively impact our results of operations. We are required to make judgments in order to estimate our obligations to taxing authorities. These tax obligations include income, property, sales and use and employment-related taxes. We also estimate our ability to utilize tax benefits and tax credits. Due to the revenue needs of the jurisdictions in which our businesses operate, various tax and fee increases may be proposed or considered. We cannot predict whether such tax legislation or regulation will be introduced or enacted or the effect of any such changes on our businesses. If enacted, any changes could increase tax expense and could have a significant negative impact on our results of operations and cash flows.

We are subject to the risk that our workforce and its knowledge base may become depleted in coming years.

PPL is experiencing an increase in attrition due primarily to the number of retiring employees. Over the next five years, 38% of PPL's workforce is projected to leave the company, with the risk that critical knowledge will be lost and that it may be difficult to replace departed personnel due to a declining trend in the number of available workers and an increase in competition for such workers.

(PPL, PPL Energy Supply and LKE)

Risk Related to Registrant Holding Companies

PPL's, PPL Energy Supply's and LKE's cash flows and ability to meet their obligations with respect to indebtedness and under guarantees, and PPL's ability to pay dividends, largely depends on the financial performance of their subsidiaries and, as a result, is effectively subordinated to all existing and future liabilities of those subsidiaries.

PPL, PPL Energy Supply and LKE are holding companies and conduct their operations primarily through subsidiaries. Substantially all of the consolidated assets of these Registrants are held by such subsidiaries. Accordingly, their cash flows and ability to meet their debt and guaranty obligations, as well as PPL's ability to pay dividends, are largely dependent upon the earnings of those subsidiaries and the distribution or other payment of such earnings in the form of dividends, distributions, loans or advances or repayment of loans and advances. The subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts due from their parents or to make any funds available for such a payment. The ability of the subsidiaries of the Registrants to pay dividends or distributions to such Registrants in the future will depend on the subsidiaries' future earnings and cash flows and the needs of their businesses, and may be restricted by their obligations to holders of their outstanding debt and other creditors, as well as any contractual or legal restrictions in effect at such time, including the requirements of state corporate law applicable to payment of dividends and distributions, and regulatory requirements, including restrictions on the ability of PPL Electric, LG&E and KU to pay dividends under Section 305(a) of the Federal Power Act.

Because PPL, PPL Energy Supply and LKE are holding companies, their debt and guaranty obligations are effectively subordinated to all existing and future liabilities of their subsidiaries. Therefore, PPL's, PPL Energy Supply's and LKE's rights and the rights of their creditors, including rights of any debt holders, to participate in the assets of any of their subsidiaries, in the event that such a subsidiary is liquidated or reorganized, will be subject to the prior claims of such subsidiary's creditors. Although certain agreements to which certain subsidiaries are parties limit their ability to incur additional indebtedness, PPL, PPL Energy Supply and LKE and their subsidiaries retain the ability to incur substantial additional indebtedness and other liabilities. In addition, if PPL elects to receive distributions of earnings from its foreign operations, PPL may incur U.S. income taxes, net of any available foreign tax credits, on such amounts. Distributions to PPL from its international projects are, in some countries, also subject to withholding taxes.

(PPL, PPL Electric, LKE, LG&E and KU)

Risks Related to Domestic Regulated Utility Operations

Our domestic regulated utility businesses face many of the same risks, in addition to those risks that are unique to the Kentucky Regulated segment and the Pennsylvania Regulated segment. Set forth below are risk factors common to both domestic regulated segments, followed by sections identifying separately the risks specific to each of these segments.

Our profitability is highly dependent on our ability to recover the costs of providing energy and utility services to our customers and earn an adequate return on our capital investments. Regulators may not approve the rates we request.

We currently provide services to our utility customers at rates approved by one or more federal or state regulatory commissions, including those commissions referred to below. While such regulation is generally premised on the recovery of prudently incurred costs and a reasonable rate of return on invested capital, the rates that we may charge our regulated generation, transmission and distribution customers are subject to authorization of the applicable regulatory authorities. There can be no assurance that such regulatory authorities will consider all of our costs to have been prudently incurred or that the regulatory process by which rates are determined will always result in rates that achieve full recovery of our costs or an adequate return on our capital investments. While our rates are generally regulated based on an analysis of our costs incurred in a base year, the rates we are allowed to charge may or may not match our costs at any given time. With respect to PPL's November 1, 2010 acquisition of LKE, each of LG&E and KU has agreed with the KPSC, subject to certain limited exceptions such as fuel and environmental cost recoveries, that no base rate increases would take effect for their Kentucky retail customers before January 1, 2013. Our regulated utility businesses are subject to substantial capital expenditure requirements over the next several years, which will require rate increase requests to the regulators. If our costs are not adequately recovered through rates, it could have an adverse affect on our business, results of operations, cash flows or financial condition.

Our domestic utility businesses are subject to significant and complex governmental regulation.

Various federal and state entities, including but not limited to the FERC, KPSC, VSCC, TRA and PUC regulate many aspects of the domestic utility operations of PPL, including:

- the rates that we may charge and the terms and conditions of our service and operations;
- financial and capital structure matters;
- siting, construction and operation of facilities;
- mandatory reliability and safety standards and other standards of conduct;
- accounting, depreciation and cost allocation methodologies;
- tax matters;
- affiliate restrictions;
- acquisition and disposal of utility assets and securities; and
- various other matters.

Such regulations or changes thereto may subject us to higher operating costs or increased capital expenditures and failure to comply could result in sanctions or possible penalties. In any rate-setting proceedings, federal or state agencies, intervenors and other permitted parties may challenge our rate requests, and ultimately reduce, alter or limit the rates we seek.

We could be subject to higher costs and/or penalties related to mandatory reliability standards.

Under the Energy Policy Act of 2005, owners and operators of the bulk power transmission system are now subject to mandatory reliability standards promulgated by the NERC and enforced by the FERC. Compliance with reliability standards may subject us to higher operating costs and/or increased capital expenditures, and violations of these standards could result in substantial penalties which may not be recoverable from customers.

Changes in transmission and wholesale power market structures could increase costs or reduce revenues.

Wholesale revenues fluctuate with regional demand, fuel prices and contracted capacity. Changes to transmission and wholesale power market structures and prices may occur in the future, are not predictable and may result in unforeseen effects on energy purchases and sales, transmission and related costs or revenues. These can include commercial or regulatory changes affecting power pools, exchanges or markets in which PPL participates.

Our domestic regulated businesses undertake significant capital projects and these activities are subject to unforeseen costs, delays or failures, as well as risk of inadequate recovery of resulting costs.

The domestic regulated utility businesses are capital intensive and require significant investments in energy generation (in the case of LG&E and KU) and transmission, distribution and other infrastructure projects, such as projects for environmental compliance and system reliability. The completion of these projects without delays or cost overruns is subject to risks in many areas, including:

- approval, licensing and permitting;
- land acquisition and the availability of suitable land;
- skilled labor or equipment shortages;
- construction problems or delays, including disputes with third party intervenors;
- increases in commodity prices or labor rates;
- contractor performance;
- environmental considerations and regulations;
- weather and geological issues; and
- political, labor and regulatory developments.

Failure to complete our capital projects on schedule or on budget, or at all, could adversely affect our financial performance, operations and future growth if such expenditures are not granted rate recovery by our regulators.

Risks Specific to Kentucky Regulated Segment

(*PPL, LKE, LG&E and KU*)

The costs of compliance with, and liabilities under, environmental laws are significant and are subject to continuing changes.

Extensive federal, state and local environmental laws and regulations are applicable to LG&E's and KU's generation business, including its air emissions, water discharges and the management of hazardous and solid waste, among other business-related activities; and the costs of compliance or alleged non-compliance cannot be predicted but could be material. In addition, our costs may increase significantly if the requirements or scope of environmental laws, regulations or similar rules are expanded or changed. Costs may take the form of increased capital or operating and maintenance expenses, monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of our key suppliers, or customers, such as coal producers and industrial power users, and may impact the costs of their products or demand for our services.

On-going changes in environmental regulations or their implementation requirements and our compliance strategies relating thereto entail a number of uncertainties.

The environmental standards governing LG&E's and KU's businesses, particularly as applicable to coal-fired generation and related activities, continue to be subject to uncertainties due to ongoing rulemakings and other regulatory developments, legislative activities, and litigation. The uncertainties associated with these developments introduce risks to our management of operations and regulatory compliance. Environmental developments, including revisions to applicable standards, changes in compliance deadlines, and invalidation of rules on appeal may require major changes in compliance strategies, operations or assets or adjustments to prior plans. Depending on the extent, frequency and timing of such changes, the companies may be subject to inconsistent requirements under multiple regulatory programs, compressed windows for decision-making and short compliance deadlines that may require aggressive schedules for construction, permitting, and other regulatory approvals. Under such circumstances, the companies may face higher risks of unsuccessful implementation of environmental-related business plans, noncompliance with applicable environmental rules, or increased costs of implementation.

Risks Specific to Pennsylvania Regulated Segment

(*PPL and PPL Electric*)

We may be subject to higher transmission costs and other risks as a result of PJM's regional transmission expansion plan (RTEP) process.

PJM and the FERC have the authority to require upgrades or expansion of the regional transmission grid, which can result in substantial expenditures for transmission owners. As discussed in Note 8 to the Financial Statements, we expect to make substantial expenditures to construct the Susquehanna-Roseland transmission line that PJM has determined is necessary for the reliability of the regional transmission grid. Although the FERC has granted our request for incentive rate treatment of such facilities, we cannot be certain that all costs that we may incur will be recoverable. In addition, the date when these facilities will be in service, which can be significantly impacted by delays related to public opposition or other factors, is subject to the outcome of future events that are not all within our control. As a result, we cannot predict the ultimate financial or operational impact of this project or other RTEP projects on PPL Electric.

We could be subject to higher costs and/or penalties related to Pennsylvania Conservation and Energy Efficiency Programs.

Act 129 became effective in October 2008. This law created requirements for energy efficiency and conservation programs and for the use of smart metering technology, imposed new PLR electricity supply procurement rules, provided remedies for market misconduct, and made changes to the existing Alternative Energy Portfolio Standard. The law also requires electric utilities to meet specified goals for reduction in customer electricity usage and peak demand by specified dates (2011 and 2013). Utilities not meeting these requirements of Act 129 are subject to significant penalties that cannot be recovered in rates. Numerous factors outside of our control could prevent compliance with these requirements and result in penalties to us. See "Regulatory Issues - Energy Policy Act of 2005 - Reliability Standards" in Note 15 to the Financial Statements for additional information.

Cost recovery remains subject to political risks.

Although prior initiatives have not resulted in the enactment of such legislation, the possibility remains that certain Pennsylvania legislators could introduce legislation to reinstate generation rate caps or otherwise limit cost recovery through rates for Pennsylvania utilities. If such legislation were introduced and ultimately enacted, PPL Electric could face severe financial consequences including operating losses and significant cash flow shortfalls. In addition, continuing uncertainty regarding PPL Electric's ability to recover its market supply and other costs of operating its business could adversely affect its credit quality, financing costs and availability of credit facilities necessary to operate its business.

(*PPL*)

Risks Related to International Regulated Segment

Our U.K. delivery business is subject to risks with respect to rate regulation and operational performance.

Our U.K. delivery business is rate regulated and operates under an incentive-based regulatory framework. In addition, its ability to manage operational risk is critical to its financial performance. Disruption to the distribution network could reduce profitability both directly through the higher costs for network restoration and also through the system of penalties and rewards that Ofgem has in place relating to customer service levels.

In December 2009, Ofgem completed its rate review for the five-year period from April 1, 2010 through March 31, 2015, thus reducing regulatory rate risk in the International Regulated segment until the next rate review which will be effective April 1, 2015. The regulated income of the International Regulated segment and also the RAV are to some extent linked to movements in the Retail Price Index (RPI). Reductions in the RPI would adversely impact revenues and the debt/RAV ratio.

Our U.K. distribution business exposes us to risks related to U.K. laws and regulations, taxes, economic conditions, foreign currency exchange rate fluctuations, and political conditions and policies of the U.K. government. These risks may reduce the results of operations from our U.K. distribution business.

The acquisition, financing, development and operation of projects in the U.K. entail significant financial risks including:

- changes in laws or regulations relating to U.K. operations, including tax laws and regulations;
- changes in government policies, personnel or approval requirements;
- changes in general economic conditions affecting the U.K.;
- regulatory reviews of tariffs for distribution companies;
- severe weather and natural disaster impacts on the electric sector and our assets;
- changes in labor relations;
- limitations on foreign investment or ownership of projects and returns or distributions to foreign investors;
- limitations on the ability of foreign companies to borrow money from foreign lenders and lack of local capital or loans;
- fluctuations in foreign currency exchange rates and in converting U.K. revenues to U.S. dollars, which can increase our expenses and/or impair our ability to meet such expenses, and difficulty moving funds out of the country in which the funds were earned; and
- compliance with U.S. foreign corrupt practices laws.

The WPD Midlands acquisition may not achieve its intended results, including anticipated cost savings, efficiencies and other benefits.

Although we completed the WPD Midlands acquisition with the expectation that it will result in various benefits, including a significant amount of cost savings and other financial and operational benefits, there can be no assurance regarding the extent to which we will be able to realize these cost-savings or other benefits. Achieving the anticipated benefits, including cost savings, is subject to a number of uncertainties, including whether the businesses acquired can be operated in the manner we intend. Events outside of our control, including but not limited to regulatory changes or developments in the U.K., could also adversely affect our ability to realize the anticipated benefits from the WPD Midlands acquisition. Thus, the integration process may be unpredictable, subject to delays or changed circumstances, and we can give no assurance that the acquired businesses will perform in accordance with our expectations. Additional unanticipated costs may also arise during the integration process. The integration of the WPD (East Midlands) and WPD (West Midlands) businesses may place an additional burden on our management and internal resources, and the diversion of management's attention during the integration and restructuring process could have an adverse effect on our business, financial condition and expected operating results.

The WPD Midlands acquisition exposes us to additional risks and uncertainties with respect to the acquired businesses and their operations.

The WPD Midlands acquisition will rebalance our business mix to a greater percentage of regulated operations. While we believe this should help mitigate our exposure to downturns in the wholesale power markets, it will increase our dependence on rate-of-return regulation. Although we are already exposed to risks relating to rate-of-return regulation, the WPD Midlands acquisition will increase these risks.

The acquired businesses will generally be subject to risks similar to those to which we are subject to in our pre-acquisition U.K. businesses. These include:

- There are various changes being contemplated by Ofgem to the current electricity distribution, gas transmission and gas distribution regulatory frameworks in the U.K. and there can be no assurance as to the effects such changes will have on our U.K. regulated businesses in the future, including the acquired businesses. In particular, in October 2010, Ofgem announced a new regulatory framework that is expected to become effective in April 2015 for the electricity distribution sector in the U.K. The framework, known as RIIO (Revenues = Incentives + Innovation + Outputs), focuses on sustainability, environmental-focused output measures, promotion of low carbon energy networks and financing of new investments. The new regulatory framework is expected to have a wide-ranging effect on electricity distribution companies operating in the U.K., including changes to price controls and price review periods. Our U.K. regulated businesses' compliance with this new regulatory framework may result in significant additional capital expenditures, increases in operating and compliance costs and adjustments to our pricing models.

- Ofgem has formal powers to propose modifications to each distribution license. We are not currently aware of any planned modification to any of our U.K. regulated businesses distribution licenses that would result in a material adverse change to the U.K. regulated businesses and PPL. There can, however, be no assurance that a restrictive modification will not be introduced in the future, which could have an adverse effect on the operations and financial condition of the U.K. regulated businesses and PPL.

- A failure to operate our U.K. networks properly could lead to compensation payments or penalties, or a failure to make capital expenditures in line with agreed investment programs could lead to deterioration of the network. While our U.K. regulated businesses' investment programs are targeted to maintain asset conditions over a five-year period and reduce customer interruptions and customer minutes lost over that period, no assurance can be provided that these regulatory requirements will be met.
- A failure by any of our U.K. regulated businesses to comply with the terms of a distribution license may lead to the issuance of an enforcement order by Ofgem that could have an adverse impact on PPL. Ofgem has powers to levy fines of up to 10 percent of revenue for any breach of a distribution license or, in certain circumstances, such as insolvency, the distribution license itself may be revoked. Unless terminated in the circumstances mentioned above, a distribution license continues indefinitely until revoked by Ofgem following no less than 25 years' written notice.
- We will be subject to increased foreign currency exchange rate risks because a greater portion of our cash flows and reported earnings will be generated by our U.K. business operations. These risks relate primarily to changes in the relative value of the British pound sterling and the U.S. dollar between the time we initially invest U.S. dollars in our U.K. businesses and the time that cash is repatriated to the U.S. from the U.K., including cash flows from our U.K. businesses that may be distributed as future dividends to our shareholders. In addition, our consolidated reported earnings on a U.S. GAAP basis may be subject to increased earnings translation risk, which is the result of the conversion of earnings as reported in our U.K. businesses on a British pound sterling basis to a U.S. dollar basis in accordance with U.S. GAAP requirements.
- Environmental costs and liabilities associated with aspects of the acquired businesses may differ from those of our existing business.

Risks Related to Supply Segment

(*PPL and PPL Energy Supply*)

We face intense competition in our energy supply business, which may adversely affect our ability to operate profitably.

Unlike our regulated utility businesses, our energy supply business is dependent on our ability to operate in a competitive environment and is not assured of any rate of return on capital investments through a predetermined rate structure. Competition is impacted by electricity and fuel prices, new market entrants, construction by others of generating assets and transmission capacity, technological advances in power generation, the actions of environmental and other regulatory authorities and other factors. These competitive factors may negatively impact our ability to sell electricity and related products and services, as well as the prices that we may charge for such products and services, which could adversely affect our results of operations and our ability to grow our business.

We sell our available energy and capacity into the competitive wholesale markets through contracts of varying duration. Competition in the wholesale power markets occurs principally on the basis of the price of products and, to a lesser extent, on the basis of reliability and availability. We believe that the commencement of commercial operation of new electric facilities in the regional markets where we own or control generation capacity and the evolution of demand side management resources will continue to increase competition in the wholesale electricity market in those regions, which could have an adverse effect on the prices we receive for electricity.

We also face competition in the wholesale markets for electricity capacity and ancillary services. We primarily compete with other electricity suppliers based on our ability to aggregate supplies at competitive prices from different sources and to efficiently utilize transportation from third-party pipelines and transmission from electric utilities and ISOs. We also compete against other energy marketers on the basis of relative financial condition and access to credit sources, and our competitors may have greater financial resources than we have.

Competitors in the wholesale power markets in which PPL Generation subsidiaries and PPL EnergyPlus operate include regulated utilities, industrial companies, non-utility generators and competitive subsidiaries of regulated utilities. In the past, the PUHCA significantly restricted mergers and acquisitions and other investments in the electric utility sector. Entirely new competitors, including financial institutions, have entered the energy markets as a result of the repeal of the original PUHCA in 2006. The repeal of the original PUHCA also may lead to consolidation in our industry, resulting in competitors with significantly greater financial resources than we have.

Adverse changes in commodity prices and related costs may decrease our future energy margins, which could adversely affect our earnings and cash flows.

Our energy margins, or the amount by which our revenues from the sale of power exceed our costs to supply power, are impacted by changes in market prices for electricity, fuel, fuel transportation, emission allowances, RECs, electricity transmission and related congestion charges and other costs. Unlike most commodities, the limited ability to store electric power requires that it must be consumed at the time of production. As a result, wholesale market prices for electricity may fluctuate substantially over relatively short periods of time and can be unpredictable. Among the factors that influence such prices are:

- supply and demand for electricity available from current or new generation resources;
- variable production costs, primarily fuel (and the associated fuel transportation costs) and emission allowance expense for the generation resources used to meet the demand for electricity;
- transmission capacity and service into, or out of, markets served;
- changes in the regulatory framework for wholesale power markets;
- liquidity in the wholesale electricity market, as well as general creditworthiness of key participants in the market; and
- weather and economic conditions impacting demand for or the price of electricity or the facilities necessary to deliver electricity.

We do not always hedge against risks associated with electricity and fuel price volatility.

We attempt to mitigate risks associated with satisfying our contractual electricity sales obligations by either reserving generation capacity to deliver electricity or purchasing the necessary financial or physical products and services through competitive markets to satisfy our net firm sales contracts. We also routinely enter into contracts, such as fuel and electricity purchase and sale commitments, to hedge our exposure to fuel requirements and other electricity-related commodities. However, based on economic and other considerations, we may decide not to hedge the entire exposure of our operations from commodity price risk. To the extent we do not hedge against commodity price risk, our results of operations and financial position may be adversely affected.

We are exposed to operational, price and credit risks associated with selling and marketing products in the wholesale and retail electricity markets.

We purchase and sell electricity in wholesale markets under market-based tariffs authorized by FERC throughout the U.S. and also enter into short-term agreements to market available electricity and capacity from our generation assets with the expectation of profiting from market price fluctuations. If we are unable to deliver firm capacity and electricity under these agreements, we could be required to pay damages. These damages would generally be based on the difference between the market price to acquire replacement capacity or electricity and the contract price of any undelivered capacity or electricity. Depending on price volatility in the wholesale electricity markets, such damages could be significant. Extreme weather conditions, unplanned generation facility outages, environmental compliance costs, transmission disruptions, and other factors could affect our ability to meet our obligations, or cause significant increases in the market price of replacement capacity and electricity.

Our wholesale power agreements typically include provisions requiring us to post collateral for the benefit of our counterparties if the market price of energy varies from the contract prices in excess of certain pre-determined amounts. We currently believe that we have sufficient credit to fulfill our potential collateral obligations under these power contracts. Our obligation to post collateral could exceed the amount of our facilities or our ability to increase our facilities could be limited by financial markets or other factors. See Note 7 to the Financial Statements for a discussion of PPL's credit facilities.

We also face credit risk that parties with whom we contract in both the wholesale and retail markets will default in their performance, in which case we may have to sell our electricity into a lower-priced market or make purchases in a higher-priced market than existed at the time of contract. Whenever feasible, we attempt to mitigate these risks using various means, including agreements that require our counterparties to post collateral for our benefit if the market price of energy varies from the contract price in excess of certain pre-determined amounts. However, there can be no assurance that we will avoid counterparty nonperformance risk, which could adversely impact our ability to meet our obligations to other parties, which could in turn subject us to claims for damages.

The load following contracts that PPL EnergyPlus is awarded do not provide for specific levels of load and actual load significantly below or above our forecasts could adversely affect our energy margins.

We generally hedge our load following obligations with energy purchases from third parties, and to a lesser extent with our own generation. If the actual load is significantly lower than the expected load, we may be required to resell power at a lower price than was contracted for to supply the load obligation, resulting in a financial loss. Alternatively, a significant increase in load could adversely affect our energy margins because we are required under the terms of the load following contracts to provide the energy necessary to fulfill increased demand at the contract price, which could be lower than the cost to procure additional energy on the open market. Therefore, any significant decrease or increase in load compared with our forecasts could have a material adverse effect on our results of operations or financial position.

We may experience disruptions in our fuel supply, which could adversely affect our ability to operate our generation facilities.

We purchase fuel from a number of suppliers. Disruption in the delivery of fuel and other products consumed during the production of electricity (such as coal, natural gas, oil, water, uranium, lime, limestone and other chemicals), including disruptions as a result of weather, transportation difficulties, global demand and supply dynamics, labor relations, environmental regulations or the financial viability of our fuel suppliers, could adversely affect our ability to operate our facilities, which could result in lower sales and/or higher costs and thereby adversely affect our results of operations.

Our risk management policy and programs relating to electricity and fuel prices, interest rates, foreign currency and counterparty credit and non-performance risks may not work as planned, and we may suffer economic losses despite such programs.

We actively manage the market risk inherent in our generation and energy marketing activities, as well as our debt, foreign currency and counterparty credit positions. We have implemented procedures to monitor compliance with our risk management policy and programs, including independent validation of transaction and market prices, verification of risk and transaction limits, portfolio stress tests, sensitivity analyses and daily portfolio reporting of various risk management metrics. Nonetheless, our risk management programs may not work as planned. For example, actual electricity and fuel prices may be significantly different or more volatile than the historical trends and assumptions upon which we based our risk management calculations. Additionally, unforeseen market disruptions could decrease market depth and liquidity, negatively impacting our ability to enter into new transactions. We enter into financial contracts to hedge commodity basis risk, and as a result are exposed to the risk that the correlation between delivery points could change with actual physical delivery. Similarly, interest rates or foreign currency exchange rates could change in significant ways that our risk management procedures were not designed to address. As a result, we cannot always predict the impact that our risk management decisions may have on us if actual events result in greater losses or costs than our risk models predict or greater volatility in our earnings and financial position.

In addition, our trading, marketing and hedging activities are exposed to counterparty credit risk and market liquidity risk. We have adopted a credit risk management policy and program to evaluate counterparty credit risk. However, if counterparties fail to perform, the risk of which has increased due to the economic downturn, we may be forced to enter into alternative arrangements at then-current market prices. In that event, our financial results are likely to be adversely affected.

Our costs to comply with existing and new environmental laws are expected to continue to be significant, and we plan to incur significant capital expenditures for pollution control improvements that, if delayed, would adversely affect our profitability and liquidity.

Our business is subject to extensive federal, state and local statutes, rules and regulations relating to environmental protection. To comply with existing and future environmental requirements and as a result of voluntary pollution control measures we may take, we have spent and expect to spend substantial amounts in the future on environmental control and compliance.

In order to comply with existing and proposed federal and state environmental laws and regulations primarily governing air emissions from coal-fired plants, in 2005 PPL began a program to install scrubbers and other pollution control equipment (primarily aimed at sulfur dioxide, particulate matter and nitrogen oxides with co-benefits for mercury emissions reduction). The cost to install this equipment was approximately $1.6 billion. The scrubbers at our Montour and Brunner Island plants are now in service. Many states and environmental groups have challenged certain federal laws and regulations relating to air emissions as not being sufficiently strict. As a result, it is possible that state and federal regulations will be adopted that would impose more stringent restrictions than are currently in effect, which could require us to significantly increase capital expenditures for additional pollution control equipment.

We may not be able to obtain or maintain all environmental regulatory approvals necessary for our planned capital projects which are necessary to our business. If there is a delay in obtaining any required environmental regulatory approval or if we fail to obtain, maintain or comply with any such approval, operations at our affected facilities could be halted, reduced or subjected to additional costs. Furthermore, at some of our older generating facilities it may be uneconomic for us to install necessary pollution control equipment, which could cause us to retire those units.

For more information regarding environmental matters, including existing and proposed federal, state and local statutes, rules and regulations to which we are subject, see "Environmental Matters - Domestic" in Note 15 to the Financial Statements.

We rely on transmission and distribution assets that we do not own or control to deliver our wholesale electricity. If transmission is disrupted, or not operated efficiently, or if capacity is inadequate, our ability to sell and deliver power may be hindered.

We depend on transmission and distribution facilities owned and operated by utilities and other energy companies to deliver the electricity and natural gas we sell in the wholesale market, as well as the natural gas we purchase for use in our electric generation facilities. If transmission is disrupted (as a result of weather, natural disasters or other reasons) or not operated efficiently by ISOs and RTOs, in applicable markets, or if capacity is inadequate, our ability to sell and deliver products and satisfy our contractual obligations may be hindered, or we may be unable to sell products at the most favorable terms.

The FERC has issued regulations that require wholesale electric transmission services to be offered on an open-access, non-discriminatory basis. Although these regulations are designed to encourage competition in wholesale market transactions for electricity, there is the potential that fair and equal access to transmission systems will not be available or that transmission capacity will not be available in the amounts we require. We cannot predict the timing of industry changes as a result of these initiatives or the adequacy of transmission facilities in specific markets or whether ISOs and RTOs in applicable markets will efficiently operate transmission networks and provide related services.

Despite federal and state deregulation initiatives, our supply business is still subject to extensive regulation, which may increase our costs, reduce our revenues, or prevent or delay operation of our facilities.

Our generation subsidiaries sell electricity into the wholesale market. Generally, our generation subsidiaries and our marketing subsidiaries are subject to regulation by the FERC. The FERC has authorized us to sell generation from our facilities and power from our marketing subsidiaries at market-based prices. The FERC retains the authority to modify or withdraw our market-based rate authority and to impose "cost of service" rates if it determines that the market is not competitive, that we possess market power or that we are not charging just and reasonable rates. Any reduction by the FERC in the rates we may receive or any unfavorable regulation of our business by state regulators could materially adversely affect our results of operations. See "FERC Market-Based Rate Authority" in Note 15 to the Financial Statements for information regarding recent court decisions that could impact the FERC's market-based rate authority program.

In addition, the acquisition, construction, ownership and operation of electricity generation facilities require numerous permits, approvals, licenses and certificates from federal, state and local governmental agencies. We may not be able to obtain or maintain all required regulatory approvals. If there is a delay in obtaining any required regulatory approvals or if we fail to obtain or maintain any required approval or fail to comply with any applicable law or regulation, the operation of our assets and our sales of electricity could be prevented or delayed or become subject to additional costs.

If market deregulation is reversed or discontinued, our business prospects and financial condition could be materially adversely affected.

In some markets, state legislators, government agencies and other interested parties have made proposals to change the use of market-based pricing, re-regulate areas of these markets that have previously been competitive or permit electricity delivery companies to construct or acquire generating facilities. The ISOs that oversee the transmission systems in certain wholesale electricity markets have from time to time been authorized to impose price limitations and other mechanisms to address extremely high prices in the power markets. These types of price limitations and other mechanisms may reduce profits that our wholesale power marketing and trading business would have realized under competitive market conditions absent such limitations and mechanisms. Although we generally expect electricity markets to continue to be competitive, other proposals to re-regulate our industry may be made, and legislative or other actions affecting the electric power restructuring process may cause the process to be delayed, discontinued or reversed in states in which we currently, or may in the future, operate. See "New Jersey Capacity Legislation" in Note 15 to the Financial Statements.

Changes in technology may negatively impact the value of our power plants.

A basic premise of our generation business is that generating electricity at central power plants achieves economies of scale and produces electricity at relatively low prices. There are alternate technologies to produce electricity, most notably fuel cells, micro turbines, windmills and photovoltaic (solar) cells, the development of which has been expanded due to global climate change concerns. Research and development activities are ongoing to seek improvements in alternate technologies. It is possible that advances will reduce the cost of alternate methods of electricity production to a level that is equal to or below that of certain central station production. Also, as new technologies are developed and become available, the quantity and pattern of electricity usage (the "demand") by customers could decline, with a corresponding decline in revenues derived by generators. These alternative energy sources could result in a decline to the dispatch and capacity factors of our plants. As a result of all of these factors, the value of our generation facilities could be significantly reduced.

We are subject to certain risks associated with nuclear generation, including the risk that our Susquehanna nuclear plant could become subject to increased security or safety requirements that would increase capital and operating expenditures, uncertainties regarding spent nuclear fuel, and uncertainties associated with decommissioning our plant at the end of its licensed life.

Nuclear generation accounted for about 28% of our 2011 generation output. The risks of nuclear generation generally include:

- the potential harmful effects on the environment and human health from the operation of nuclear facilities and the storage, handling and disposal of radioactive materials;
- limitations on the amounts and types of insurance commercially available to cover losses and liabilities that might arise in connection with nuclear operations; and
- uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of their licensed lives. The licenses for our two nuclear units expire in 2042 and 2044. See Note 21 to the Financial Statements for additional information on the ARO related to the decommissioning.

The NRC has broad authority under federal law to impose licensing requirements, including security, safety and employee-related requirements for the operation of nuclear generation facilities. In the event of noncompliance, the NRC has authority to impose fines or shut down a unit, or both, depending upon its assessment of the severity of the situation, until compliance is achieved. In addition, revised security or safety requirements promulgated by the NRC could necessitate substantial capital or operating expenditures at our Susquehanna nuclear plant. There also remains substantial uncertainty regarding the temporary storage and permanent disposal of spent nuclear fuel, which could result in substantial additional costs to PPL that cannot be predicted. In addition, although we have no reason to anticipate a serious nuclear incident at our Susquehanna plant, if an incident did occur, any resulting operational loss, damages and injuries could have a material adverse effect on our results of operations, cash flows or financial condition. See Note 15 to the Financial Statements for a discussion of nuclear insurance.

ITEM 1B. UNRESOLVED STAFF COMMENTS

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

None.

ITEM 2. PROPERTIES

(PPL, LKE, LG&E and KU)

Kentucky Regulated Segment

LG&E's and KU's properties consist primarily of regulated generation facilities, electric transmission and distribution assets and natural gas transmission and distribution assets in Kentucky. The electric generating capacity at December 31, 2011 was:

		LKE	LG&E		KU	
Primary Fuel/Plant (a)	**Total MW Capacity (b) Summer**	**Ownership or Lease Interest in MW**	**% Ownership**	**Ownership or Lease Interest in MW**	**% Ownership**	**Ownership or Lease Interest in MW**
Coal						
Ghent	1,932	1,932			100.00	1,932
Mill Creek	1,472	1,472	100.00	1,472		
E.W. Brown - Units 1-3	684	684			100.00	684
Cane Run - Units 4-6	563	563	100.00	563		
Trimble County - Unit 1 (c)	511	383	75.00	383		
Trimble County - Unit 2 (c)(d)	732	549	14.25	104	60.75	445
Green River	163	163			100.00	163
OVEC - Clifty Creek (e)	1,304	106	5.63	73	2.50	33
OVEC - Kyger Creek (e)	1,086	88	5.63	61	2.50	27
Tyrone	71	71			100.00	71
	8,518	6,011		2,656		3,355
Natural Gas/Oil						
Trimble County Units 7-10	628	628	37.00	232	63.00	396
E.W. Brown Units 8-11 (g)	486	486			100.00	486
E.W. Brown Units 6-7 (f)	292	292	38.00	111	62.00	181
Trimble County Units 5-6	314	314	29.00	91	71.00	223
Paddy's Run Unit 13	147	147	53.00	78	47.00	69
E.W. Brown Unit 5 (f)(g)	132	132	53.00	69	47.00	63
Paddy's Run Units 11-12	35	35	100.00	35		
Haefling	36	36			100.00	36
Zorn	14	14	100.00	14		
Cane Run Unit 11	14	14	100.00	14		
	2,098	2,098		644		1,454
Hydro						
Ohio Falls	52	52	100.00	52		
Dix Dam	24	24			100.00	24
	76	76		52		24
Total	10,692	8,185		3,352		4,833

(a) LG&E and KU's properties are primarily located in Kentucky, with the exception of the units owned by OVEC. Clifty Creek is located in Indiana and Kyger Creek is located in Ohio.
(b) The capacity of generation units is based on a number of factors, including the operating experience and physical conditions of the units, and may be revised periodically to reflect changed circumstances.
(c) TC1 and TC2 are jointly owned with Illinois Municipal Electric Agency and Indiana Municipal Power Agency. Each owner is entitled to its proportionate share of the units' total output and funds its proportionate share of capital, fuel and other operating costs. See Note 14 to the Financial Statements for additional information.
(d) LKE took care, custody and control of TC2 on January 22, 2011, and has dispatched the unit to meet customer demand since that date. See Note 15 to the Financial Statements for additional information.
(e) This unit is owned by OVEC. LKE has a power purchase agreement that entitles LKE to its proportionate share of the unit's total output and LKE funds its proportionate share of fuel and other operating costs. See Note 15 to the Financial Statements for additional information.
(f) Includes a leasehold interest. See Note 11 to the Financial Statements for additional information.
(g) There is an inlet air cooling system attributable to these units. This inlet air cooling system is not jointly owned; however, it is used to increase production on the units to which it relates, resulting in an additional 10 MW of capacity for LG&E and an additional 88 MW of capacity for KU.

For a description of LG&E's and KU's service areas, see "Item 1. Business - Background." At December 31, 2011, LG&E's transmission system included in the aggregate, 45 substations (32 of which are shared with the distribution system) with a total capacity of 7 million kVA and 916 circuit miles of lines. The distribution system included 97 substations (32 of which are shared with the transmission system) with a total capacity of 5 million kVA, 3,887 miles of overhead lines and 2,371 miles of underground wires. KU's transmission system included 133 substations (55 of which are shared with the distribution system) with a total capacity of 13 million kVA and 4,078 circuit miles of lines. The distribution system included 478 substations (55 of which are shared with the transmission system) with transformer capacity of 7 million kVA, 14,112 miles of overhead lines and 2,265 miles of underground conduit.

LG&E's natural gas transmission system includes 4,290 miles of gas distribution mains and 386 miles of gas transmission mains, consisting of 254 miles of gas transmission pipeline, 123 miles of gas transmission storage lines, 6 miles of gas combustion turbine lines, and 3 miles of gas transmission pipeline in regulator facilities. Five underground natural gas storage fields, with a total working natural gas capacity of approximately 15 Bcf, are used in providing natural gas service to ultimate consumers. KU's service area includes an additional 11 miles of gas transmission pipeline providing gas supply to natural gas combustion turbine electrical generating units.

Substantially all of LG&E's and KU's respective real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and, in the case of LG&E, the storage and distribution of natural gas, is subject to the lien of either the LG&E 2010 Mortgage Indenture or the KU 2010 Mortgage Indenture. See Note 7 to the Financial Statements for additional information.

LG&E and KU continuously reexamine development projects based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them or pursue other options. At December 31, 2011, LG&E and KU planned to implement the following incremental capacity increases and decreases at the following plants located in Kentucky.

		LG&E		KU		
Primary Fuel/Plant	**Total Net Summer MW Capacity Increase / (Decrease) (a)**	**% Ownership**	**Ownership or Lease Interest in MW**	**% Ownership**	**Ownership or Lease Interest in MW**	**Date of Incremental Capacity Increase / Decrease (b)**
Coal						
Cane Run - Units 4-6 - (c)	(563)	100.00	(563)			2015
Green River - (c)	(163)			100.00	(163)	2015
Tyrone - (c)	(71)			100.00	(71)	2015
Total Capacity Decreases	(797)		(563)		(234)	
Natural Gas/Oil						
Cane Run - Unit 7 (d)	640	22.00	141	78.00	499	2016
Bluegrass CTs (e)	495	69.00	342	31.00	153	2012
Total Capacity Increases	1,135		483		652	
Total	338		(80)		418	

(a) The capacity of generating units is based on a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changed circumstances.
(b) The expected in-service dates are subject to receipt of required approvals, permits and other contingencies.
(c) LG&E and KU anticipate retiring these units at the end of 2015. See Notes 8 and 15 to the Financial Statements for additional information.
(d) In September 2011, LG&E and KU requested approval to build this unit at the existing Cane Run site. See Note 8 to the Financial Statements for additional information.
(e) In September 2011, LG&E and KU requested approval to purchase three existing natural gas combustion units. See Note 8 to the Financial Statements for additional information.

(PPL)

International Regulated Segment

For a description of WPD's service territory, see "Item 1. Business - Background." At December 31, 2011, WPD had electric distribution lines in public streets and highways pursuant to legislation and rights-of-way secured from property owners. WPD's distribution system in the U.K. includes 1,602 substations with a total capacity of 61 million kVA, 57,472 circuit miles of overhead lines and 79,755 cable miles of underground conductors.

(PPL and PPL Electric)

Pennsylvania Regulated Segment

For a description of PPL Electric's service territory, see "Item 1. Business - Background." At December 31, 2011, PPL Electric had electric transmission and distribution lines in public streets and highways pursuant to franchises and rights-of-way secured from property owners. PPL Electric's transmission system included 60 substations with a total capacity of 17 million kVA and 6,727 pole miles. PPL Electric's distribution system included 321 substations with a total capacity of 15 million kVA, 33,145 circuit miles of overhead lines and 7,407 cable miles of underground conductors. All of PPL Electric's facilities are located in Pennsylvania. Substantially all of PPL Electric's distribution properties and certain transmission properties are subject to the lien of the PPL Electric 2001 Mortgage Indenture.

See Note 8 to the Financial Statements for information on the construction of the Susquehanna-Roseland 500-kilovolt transmission line.

(PPL and PPL Energy Supply)

Supply Segment

PPL Energy Supply's electric generating capacity (summer rating) at December 31, 2011 was:

Primary Fuel/Plant	Total MW Capacity (a)	% Ownership	PPL Energy Supply's Ownership or Lease Interest in MW (a)	Location
Natural Gas/Oil				
Martins Creek	1,685	100.00	1,685	Pennsylvania
Ironwood (b)	657	100.00	657	Pennsylvania
Lower Mt. Bethel	552	100.00	552	Pennsylvania
Combustion turbines	362	100.00	362	Pennsylvania
	3,256		3,256	
Coal				
Montour	1,515	100.00	1,515	Pennsylvania
Brunner Island	1,445	100.00	1,445	Pennsylvania
Colstrip Units 1 & 2 (c)	614	50.00	307	Montana
Conemaugh (d)	1,717	16.25	279	Pennsylvania
Colstrip Unit 3 (c)	740	30.00	222	Montana
Keystone (d)	1,717	12.34	212	Pennsylvania
Corette	153	100.00	153	Montana
	7,901		4,133	
Nuclear				
Susquehanna (d)	2,528	90.00	2,275	Pennsylvania
Hydro				
Various	604	100.00	604	Montana
Various	175	100.00	175	Pennsylvania
	779		779	
Qualifying Facilities				
Renewables (e)	57	100.00	57	Pennsylvania
Renewables	8	100.00	8	Various
	65		65	
Total	14,529		10,508	

(a) The capacity of generation units is based on a number of factors, including the operating experience and physical conditions of the units, and may be revised periodically to reflect changed circumstances.
(b) Facility not owned by PPL Energy Supply, but there is a tolling agreement in place through 2021.
(c) Represents the leasehold interest held by PPL Montana. See Note 11 to the Financial Statements for additional information.
(d) This unit is jointly owned. Each owner is entitled to their proportionate share of the unit's total output and funds their proportionate share of fuel and other operating costs. See Note 14 to the Financial Statements for additional information.
(e) Includes facilities owned, controlled or for which PPL Energy Supply has the rights to the output.

Amounts guaranteed by PPL Montour and PPL Brunner Island in connection with an $800 million secured energy marketing and trading facility are secured by liens on the generating facilities owned by PPL Montour and PPL Brunner Island. See Note 7 to the Financial Statements for additional information.

PPL Energy Supply continuously reexamines development projects based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. At December 31, 2011, PPL Energy Supply subsidiaries planned to implement the following incremental capacity increases.

Primary Fuel/Plant	Location	Total MW Capacity (a)	PPL Energy Supply Ownership or Lease Interest in MW		Expected In-Service Date (b)
Hydro					
Holtwood (c)	Pennsylvania	128	128	(100%)	2012 - 2013
Lower Mt. Bethel (d)	Pennsylvania	33	33	(100%)	2012
Great Falls (e)	Montana	28	28	(100%)	2012
Solar					
Warren County	New Jersey	2	2	(100%)	2012
Total		191	191		

(a) The capacity of generating units is based on a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changed circumstances.
(b) The expected in-service dates are subject to receipt of required approvals, permits and other contingencies.
(c) This project includes installation of two additional large turbine-generators and the replacement of four existing runners.
(d) This project includes installation of enhanced compressor and turbine hardware and control logic optimization that will increase output and improve heat rate.
(e) This project involves the reconstruction of a powerhouse.

ITEM 3. LEGAL PROCEEDINGS

See Notes 5, 6 and 15 to the Financial Statements for information regarding legal, tax litigation, regulatory and environmental proceedings and matters.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash" for information regarding certain restrictions on the ability to pay dividends for PPL, PPL Electric, LKE, LG&E and KU.

PPL Corporation

Additional information for this item is set forth in the sections entitled "Quarterly Financial, Common Stock Price and Dividend Data," "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" and "Shareowner and Investor Information" of this report. At January 31, 2012, there were 68,702 common stock shareowners of record.

In 2011, PPL terminated the program to repurchase its common stock in open market purchases, pre-arranged trading plans or privately negotiated transactions. There were no purchases by PPL of its common stock during the fourth quarter of 2011.

PPL Energy Supply, LLC

There is no established public trading market for PPL Energy Supply's membership interests. PPL Energy Funding, a direct wholly owned subsidiary of PPL, owns all of PPL Energy Supply's outstanding membership interests. Distributions on the membership interests will be paid as determined by PPL Energy Supply's Board of Managers.

PPL Energy Supply made cash distributions to PPL Energy Funding of $316 million in 2011 and $4.7 billion in 2010. In 2010, PPL Energy Supply received cash contributions of $3.6 billion and distributed $4.7 billion to PPL Energy Funding. The cash contributions received from its parent related primarily to the funds received by PPL in June 2010 from the issuance of common stock and 2010 Equity Units. These funds were invested by a subsidiary of PPL Energy Supply until they were returned to PPL Energy Funding in October 2010 to be available to partially fund PPL's acquisition of LKE and pay certain acquisition-related fees and expenses. See Note 9 to the Financial Statements regarding the distribution, including $325 million of cash, of PPL Energy Supply's membership interests in PPL Global to PPL Energy Funding in January 2011.

PPL Electric Utilities Corporation

There is no established public trading market for PPL Electric's common stock, as PPL owns 100% of the outstanding common shares. Dividends paid to PPL on those common shares are determined by PPL Electric's Board of Directors. PPL Electric paid common stock dividends to PPL of $92 million in 2011 and $71 million in 2010.

LG&E and KU Energy LLC

There is no established public trading market for LKE's membership interests. PPL owns all of LKE's outstanding membership interests. Distributions on the membership interests will be paid as determined by LKE's Board of Directors. LKE made cash distributions to PPL of $533 million in 2011 (including $248 million from the proceeds of a note issuance) and $100 million in 2010. LKE made cash distributions to E.ON US Investments Corp. of $87 million in 2010.

Louisville Gas and Electric Company

There is no established public trading market for LG&E's common stock, as LKE owns 100% of the outstanding common shares. Dividends paid to LKE on those common shares are determined by LG&E's Board of Directors. LG&E paid common stock dividends to LKE of $83 million in 2011 and $55 million in 2010.

Kentucky Utilities Company

There is no established public trading market for KU's common stock, as LKE owns 100% of the outstanding common shares. Dividends paid to LKE on those common shares are determined by KU's Board of Directors. KU paid common stock dividends to LKE of $124 million in 2011 and $50 million in 2010.

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 6 is omitted as PPL Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

PPL Corporation (a) (b)	2011 (c)	2010 (c)	2009	2008	2007
Income Items - millions					
Operating revenues	**$ 12,737**	$ 8,521	$ 7,449	$ 7,857	$ 6,327
Operating income	**3,101**	1,866	896	1,703	1,606
Income from continuing operations after income taxes attributable to PPL	**1,493**	955	414	857	973
Net income attributable to PPL	**1,495**	938	407	930	1,288
Balance Sheet Items - millions (d)					
Total assets	**42,648**	32,837	22,165	21,405	19,972
Short-term debt	**578**	694	639	679	92
Long-term debt (e)	**17,993**	12,663	7,143	7,838	7,568
Noncontrolling interests	**268**	268	319	319	320
Common equity	**10,828**	8,210	5,496	5,077	5,556
Total capitalization (e)	**29,667**	21,835	13,597	13,913	13,536
Financial Ratios					
Return on average common equity - %	**14.93**	13.26	7.48	16.88	24.47
Ratio of earnings to fixed charges (f)	**3.1**	2.7	1.9	3.1	2.8
Common Stock Data					
Number of shares outstanding - Basic (in thousands)					
Year-end	**578,405**	483,391	377,183	374,581	373,271
Weighted-average	**550,395**	431,345	376,082	373,626	380,563
Income from continuing operations after income taxes available to PPL common shareowners - Basic EPS	**$ 2.70**	$ 2.21	$ 1.10	$ 2.28	$ 2.53
Income from continuing operations after income taxes available to PPL common shareowners - Diluted EPS	**$ 2.70**	$ 2.20	$ 1.10	$ 2.28	$ 2.51
Net income available to PPL common shareowners - Basic EPS	**$ 2.71**	$ 2.17	$ 1.08	$ 2.48	$ 3.37
Net income available to PPL common shareowners - Diluted EPS	**$ 2.70**	$ 2.17	$ 1.08	$ 2.47	$ 3.34
Dividends declared per share of common stock	**$ 1.40**	$ 1.40	$ 1.38	$ 1.34	$ 1.22
Book value per share (d)	**$ 18.72**	$ 16.98	$ 14.57	$ 13.55	$ 14.88
Market price per share (d)	**$ 29.42**	$ 26.32	$ 32.31	$ 30.69	$ 52.09
Dividend payout ratio - % (g)	**52**	65	128	54	37
Dividend yield - % (h)	**4.76**	5.32	4.27	4.37	2.34
Price earnings ratio (g) (h)	**10.89**	12.13	29.92	12.43	15.60
Sales Data - GWh					
Domestic - Electric energy supplied - retail (i)	**40,147**	14,595	38,912	40,374	40,074
Domestic - Electric energy supplied - wholesale (i) (j)	**65,681**	75,489	38,988	42,712	33,515
Domestic - Electric energy delivered (i)	**68,063**	42,341	36,717	38,058	37,950
International - Electric energy delivered (k)	**58,245**	26,820	26,358	27,724	31,652

(a) The earnings each year were affected by several items that management considers special. See "Results of Operations - Segment Results" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a description of special items in 2011, 2010 and 2009.

(b) See "Item 1A. Risk Factors" and Notes 6 and 15 to the Financial Statements for a discussion of uncertainties that could affect PPL's future financial condition. Also see Note 9 to the Financial Statements for a discussion of discontinued operations for activity recorded in 2011, 2010 and 2009. In addition, years 2008 and 2007 were also impacted by the sales of the Latin American and gas and propane businesses.

(c) Includes WPD Midlands activity since its April 1, 2011 acquisition date. Includes LKE activity since its November 1, 2010 acquisition date.

(d) As of each respective year-end.

(e) Year 2007 excludes amounts related to PPL's natural gas distribution and propane businesses that had been classified as held for sale at December 31, 2007.

(f) Computed using earnings and fixed charges of PPL and its subsidiaries. Fixed charges consist of interest on short- and long-term debt, amortization of debt discount, expense and premium - net, other interest charges, the estimated interest component of operating rentals and preferred securities distributions of subsidiaries. See Exhibit 12(a) for additional information.

(g) Based on diluted EPS.

(h) Based on year-end market prices.

(i) The domestic trends for 2010 reflect the expiration of the PLR contract between PPL EnergyPlus and PPL Electric as of December 31, 2009. See Note 16 to the Financial Statements for additional information.

(j) GWh are included until the transaction closing for facilities that were sold.

(k) Year 2007 includes the deliveries associated with the Latin American businesses, until the date of their sale in 2007. Year 2011 includes eight months of deliveries associated with the acquisition of WPD Midlands as volumes are reported on a one-month lag.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information provided in this Item 7 should be read in conjunction with PPL's Consolidated Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of PPL and its business strategy. "Financial and Operational Developments" includes a review of Net Income Attributable to PPL Corporation and discusses certain events that are important to understanding PPL's results of operations and financial condition.

- "Results of Operations" provides a summary of PPL's earnings, a review of results by reportable segment and a description of key factors by segment expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on PPL's Statements of Income, comparing 2011, 2010 and 2009.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL's liquidity position and credit profile. This section also includes a discussion of rating agency decisions and capital expenditure projections.

- "Financial Condition - Risk Management - Energy Marketing & Trading and Other" provides an explanation of PPL's risk management programs relating to market and credit risk.

- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of PPL and that require its management to make significant estimates, assumptions and other judgments of matters inherently uncertain.

Overview

Introduction

PPL is an energy and utility holding company with headquarters in Allentown, Pennsylvania. Through subsidiaries, PPL generates electricity from power plants in the northeastern, northwestern and southeastern U.S., markets wholesale and retail energy primarily in the northeastern and northwestern portions of the U.S., delivers electricity to customers in Pennsylvania, Kentucky, Virginia, Tennessee and the U.K. and delivers natural gas to customers in Kentucky.

In 2011 and 2010, PPL completed two acquisitions.

* On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands), from subsidiaries of E.ON AG. The consideration for the acquisition consisted of cash of $5.8 billion, including the repayment of $1.7 billion of affiliate indebtedness owed to subsidiaries of E.ON AG, and $800 million of long-term debt assumed through consolidation. WPD Midlands operates two regulated distribution networks that serve five million end-users in the Midlands area of England.

* On November 1, 2010, PPL completed the acquisition of all of the limited liability company interests of E.ON U.S. LLC from a wholly owned subsidiary of E.ON AG. Upon completion of the acquisition, E.ON U.S. LLC was renamed LG&E and KU Energy LLC (LKE). LKE is engaged in regulated utility operations through its subsidiaries, LG&E and KU. The consideration for the acquisition consisted of cash of $6.8 billion, including the repayment of $4.3 billion of affiliate indebtedness owed to subsidiaries of E.ON AG, and $800 million of debt assumed through consolidation.

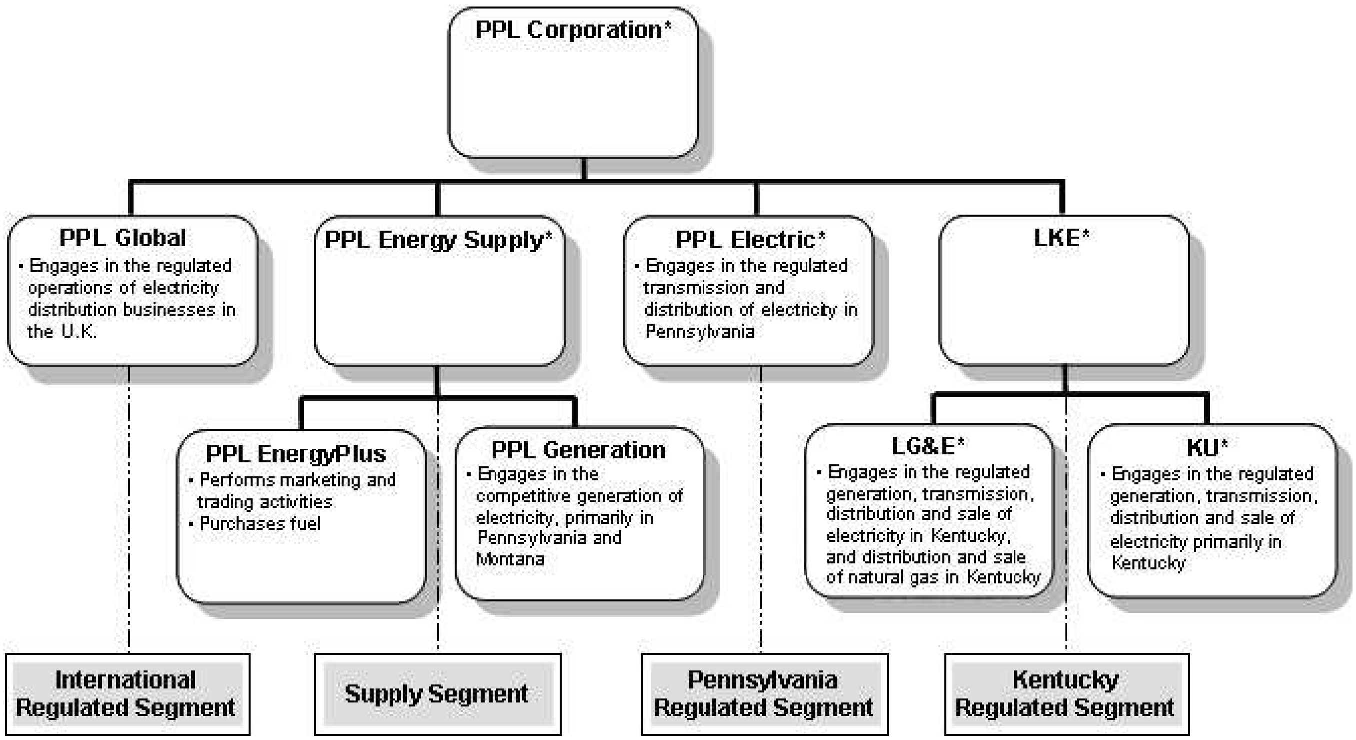
See Note 10 to the Financial Statements for additional information on the acquisitions.

At December 31, 2011, PPL had:

- $12.7 billion in operating revenues (including eight months from WPD Midlands, which are recorded on a one-month lag)
- 10.5 million end-users of its utility services (including five million end-users served by the WPD Midlands companies)
- Approximately 19,000 MW of generation
- Approximately 18,000 full-time employees

In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to its parent, PPL Energy Funding (the parent holding company of PPL Energy Supply and PPL Global with no other material operations), to better align PPL's organizational structure with the manner in which it manages its businesses and reports segment information in its consolidated financial statements. The distribution separated the U.S.-based competitive energy marketing and supply business from the U.K.-based regulated electricity distribution business.

PPL's principal subsidiaries are shown below (* denotes an SEC registrant; LKE, LG&E and KU became SEC registrants effective June 1, 2011):



Business Strategy

PPL's overall strategy is to achieve stable, long-term growth in its regulated electricity delivery businesses through efficient operations and strong customer and regulatory relations, and disciplined optimization of energy supply margins while mitigating volatility in both cash flows and earnings. In pursuing this strategy, PPL acquired LKE in November 2010 and WPD Midlands in April 2011. These acquisitions have reduced PPL's overall business risk profile and reapportioned the mix of PPL's regulated and competitive businesses by increasing the regulated portion of its business and enhancing rate-regulated growth opportunities as the regulated businesses make investments to improve infrastructure and customer reliability.

The increase in regulated assets is expected to provide earnings stability through regulated returns and the ability to recover costs of capital investments, in contrast to the competitive energy supply business where earnings and cash flows are subject to commodity market volatility. Following the LKE and WPD Midlands acquisitions, approximately 70% of PPL's assets are in its regulated businesses. The pro forma impacts of the acquisitions of LKE and WPD Midlands on income from continuing operations (after income taxes) attributable to PPL for 2011 and 2010 are as follows.

	2011				2010			
	Pro forma		Actual		Pro forma		Actual	
Regulated	$ 1,027	57%	$ 912	54%	$ 831	57%	$ 398	39%
Competitive	773	43%	773	46%	631	43%	631	61%
	$ 1,800		$ 1,685		$ 1,462		$ 1,029	

Note: Pro forma and actual amounts exclude non-recurring items identified in Note 10 to the Financial Statements.

Results for periods prior to the acquisitions of LKE and WPD Midlands are not comparable with, or indicative of, results for periods subsequent to the acquisitions.

With the purchase of WPD Midlands and the related growth of the portion of PPL's overall earnings translated from British pounds sterling, the related foreign currency risk is more substantial. The U.K. subsidiaries also have currency exposure to the U.S. dollar to the extent they have U.S. dollar denominated debt. To manage these risks, PPL generally uses contracts such as forwards, options and cross currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts.

PPL's strategy for its competitive energy supply business is to optimize the value from its unregulated generation and marketing portfolio. PPL endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk.

To manage financing costs and access to credit markets, a key objective of PPL's business strategy is to maintain a strong credit profile. PPL continually focuses on maintaining an appropriate capital structure and liquidity position. In addition, PPL has adopted financial and operational risk management programs that, among other things, are designed to monitor and manage its exposure to earnings and cash flow volatility related to changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of its generating units.

Financial and Operational Developments

Net Income Attributable to PPL Corporation

Net Income Attributable to PPL Corporation for 2011, 2010 and 2009 was $1.5 billion, $938 million and $407 million. Earnings in 2011 increased 59% over 2010 and earnings in 2010 increased 130% over 2009. These changes reflect the following after-tax impacts by segment:

	2011 vs. 2010	2010 vs. 2009
Kentucky Regulated Segment earnings	$ 195	$ 26
International Regulated Segment		
WPD Midlands earnings	281	
WPD Midlands acquisition-related costs	(192)	
Reduction in U.K. tax rate related to PPL WW	16	18
Pennsylvania Regulated Segment		
Distribution base rate increase effective January 2011	40	
Supply Segment		
Net unrealized gains/(losses) on energy-related economic activity	193	104
Losses on the monetization of certain full-requirement sales contracts in 2010	125	(125)
Litigation settlement in 2011 related to spent nuclear fuel	33	
LKE acquisition-related costs (a)	96	(98)
State valuation allowance adjustments	(101)	52
Change in "Unregulated Gross Energy Margins" (b)	(240)	608
Unallocated costs - LKE acquisition-related costs in 2010	76	(76)
Other	35	22
	$ 557	$ 531

(a) Primarily consists of an impairment charge recorded related to the sale of certain non-core generation facilities and discontinued cash flow hedges and ineffectiveness.
(b) See "Statement of Income Analysis - Margins" for additional information, including a reconciliation of this non-GAAP financial measure to operating income.

See "Results of Operations" below for further discussion and analysis of the consolidated results of operations, as well as a discussion of each of PPL's business segments.

Acquisition of WPD Midlands

On April 1, 2011, PPL completed its acquisition of WPD Midlands. The service territories of PPL WW and WPD Midlands are contiguous and cost savings, efficiencies and other benefits are expected from the combined operation of these entities.

The cash consideration of $5.8 billion was primarily funded by borrowings under the 2011 Bridge Facility. Permanent financing was completed in the second quarter of 2011 to repay 2011 Bridge Facility borrowings, pay certain acquisition-related fees and raise additional capital for general corporate purposes. See Note 7 to the Financial Statements for additional information related to the financings.

Pursuant to WPD's previously described intention to combine the operations of PPL WW and WPD Midlands, approximately 740 employees of WPD Midlands will receive separation benefits from the companies as a new regional structure is implemented. The total separation benefits payable in connection with the reorganization are $104 million, including $58 million of severance compensation, $45 million of early retirement deficiency costs (ERDC) and $1 million in outplacement services.

In connection with the reorganization, WPD Midlands recorded $93 million of the total separation benefits in 2011, of which $48 million relates to severance compensation and $45 million relates to ERDC. Based on the expected timing of when employees will separate from the companies, WPD Midlands expects to record the remaining portion of severance compensation in 2012. The separation benefits recorded in 2011 are included in "Other operation and maintenance" on the Statement of Income. Severance compensation costs of $21 million are accrued in "Other current liabilities" and ERDC costs of $45 million reduced "Other noncurrent assets" on the Balance Sheet at December 31, 2011.

Goodwill of $2.4 billion was recorded as a result of the purchase price allocation. PPL incurred acquisition-related costs of $258 million, pre-tax, for 2011 which includes, among other items, the separation benefits discussed above, employee relocation costs, contract termination costs, advisory, accounting and legal fees, taxes and certain financing costs, including gains on hedges and foreign currency losses on the 2011 Bridge Facility.

See Note 10 to the Financial Statements for additional information related to the acquisition.

Susquehanna Turbine Blade Replacement

In April 2011, during the PPL Susquehanna Unit 2 refueling and generation uprate outage, a planned inspection of the Unit 2 turbine revealed cracks in certain of its low pressure turbine blades. Replacement of these blades was required, but was not anticipated as part of the original scope of this outage. The necessary replacement work extended the Unit 2 outage by six weeks. As a precaution, PPL Susquehanna also took Unit 1 out of service in mid-May to inspect the turbine blades in that unit. This inspection revealed cracks in blades similar to those found in Unit 2. The duration of the Unit 1 outage, in which turbine blades were replaced, was also about six weeks. The after-tax earnings impact, including reduced energy-sales margins and repair expense for both units, was $63 million.

Spent Nuclear Fuel Litigation

In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna plant. Under the settlement agreement, PPL Susquehanna received $50 million, pre-tax, for its share of claims to partially offset its expenses incurred to store spent nuclear fuel at the Susquehanna plant through September 2009, and recognized a credit to "Fuel" expense in 2011. PPL Susquehanna also will be eligible to receive payment of annual claims for allowed costs that are incurred through the December 2013 termination of the settlement agreement. In exchange, PPL Susquehanna has waived any claims against the U.S. Government for costs paid or injuries sustained related to storing spent nuclear fuel at the Susquehanna plant through December 31, 2013. See Note 15 to the Financial Statements for additional information.

Tax Rate Change

In July 2011, the U.K.'s Finance Act of 2011 was enacted. The most significant change to the law was a reduction in the U.K.'s statutory income tax rate. The statutory tax rate was changed from 27% to 26%, effective April 1, 2011 and from 26% to 25%, effective April 1, 2012. As a result of these changes, in 2011, PPL reduced its net deferred tax liabilities and recognized a $69 million deferred tax benefit to reflect both rate decreases.

Bankruptcy of SMGT

In October 2011, SMGT, a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus expiring in June 2019 (SMGT Contract), filed for protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court in Montana. At December 31, 2011, damages related to SMGT accepting less power than provided in the SMGT Contract totaled approximately $11 million, all of which has been fully reserved. No assurance can be given as to the collectability of these damages.

The SMGT Contract provides for fixed volume purchases on a monthly basis at established prices. A trustee has been appointed for SMGT's estate in the bankruptcy proceeding and PPL EnergyPlus has been involved in preliminary discussions with the trustee concerning possible modifications to the SMGT Contract as part of the bankruptcy reorganization. Pursuant to a stipulation entered into by SMGT and PPL EnergyPlus, since the date of its Chapter 11 filing through January 2012, SMGT has continued to purchase electricity from PPL EnergyPlus at the price specified in the SMGT Contract, and has made timely payments for such purchases, but at lower volumes than as prescribed in the SMGT Contract. In January 2012, the trustee notified PPL EnergyPlus that SMGT would not purchase electricity under the SMGT Contract for the month of February. In addition, the trustee requested PPL EnergyPlus to leave the SMGT Contract in place to permit SMGT to purchase electricity in the event its requirements were not met by third-party providers from whom the trustee intends to purchase power on behalf of SMGT, at prices more favorable than under the SMGT Contract, for future periods. PPL EnergyPlus is evaluating the trustee's request.

At the present time, PPL cannot predict whether SMGT will be successful in its attempts to reorganize its business under Chapter 11 of the U.S. Bankruptcy Code or the extent to which the SMGT Contract may be modified as part of a successful Chapter 11 reorganization and, in either case, PPL cannot presently predict the extent to which it will be able to market to third parties any amount of power that SMGT ultimately does not continue to purchase from PPL EnergyPlus.

Storm Recovery

PPL Electric experienced several PUC-reportable storms during 2011 resulting in total restoration costs of $84 million, of which $54 million were recorded in "Other operation and maintenance" on the Statement of Income. However, a PPL subsidiary has a $10 million reinsurance policy with a third party insurer, for which a receivable was recorded with an offsetting credit to "Other operation and maintenance" on the Statement of Income. In December 2011, PPL Electric received orders from the PUC granting permission to defer qualifying storm costs in excess of insurance recoveries associated with Hurricane Irene and a late October snowstorm. Based on the PUC orders, PPL Electric recorded a regulatory asset of $25 million in December 2011. PPL Electric will seek recovery of these costs in its next general base rate proceeding.

Tax Litigation

In 1997, the U.K. imposed a Windfall Profits Tax (WPT) on privatized utilities, including WPD. PPL filed its tax returns for years subsequent to its 1997 and 1998 claims for refund on the basis that the U.K. WPT was creditable. In September 2010, the U.S. Tax Court (Tax Court) ruled in PPL's favor in a dispute with the IRS, concluding that the U.K. WPT is a creditable tax for U.S. tax purposes. As a result and with the finalization of other issues, PPL recorded a $42 million tax benefit in 2010. In January 2011, the IRS appealed the Tax Court's decision to the U.S. Court of Appeals for the Third Circuit (Third Circuit). In December 2011, the Third Circuit issued its opinion reversing the Tax Court's decision and holding that the U.K. WPT is not a creditable tax. As a result of the Third Circuit's adverse determination, PPL recorded a $39 million expense in 2011. On February 27, 2012, PPL filed with the Third Circuit a petition for rehearing of its opinion on this matter.

CSAPR

In July 2011, the EPA signed the CSAPR, which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010, and made revisions to the rule on February 7, 2012. This rule applies to PPL's Pennsylvania and Kentucky coal plants. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions.

In December 2011, the U.S. Court of Appeals for the District of Columbia (Court) stayed implementation of the CSAPR and left CAIR in effect pending a final resolution on the merits of the validity of the rule. Oral argument on the various challenges to the CSAPR is scheduled for April 2012, and a final decision on the validity of the rule could be issued as early as May 2012.

With respect to the Kentucky coal-fired generating plants, the stay of the CSAPR will initially only impact the unit dispatch order. With the return of the CAIR and the Kentucky companies' significant number of sulfur dioxide allowances, those units will be dispatched with lower operating cost, but slightly higher sulfur dioxide and nitrogen oxide emissions. However, a key component of the Court's final decision, even if the CSAPR is upheld, will be whether the ruling delays the implementation of the CSAPR by one year for both Phases I and II, or instead still requires the significant sulfur dioxide and nitrogen oxide reductions associated with Phase II to begin in 2014. LG&E's and KU's CSAPR compliance strategy is based on over-compliance during Phase I to generate allowances sufficient to cover the expected shortage during the first two years of Phase II (2014 and 2015) when additional pollution control equipment will be installed. Should Phase I of the CSAPR be shortened to one year, it will be more difficult and costly to provide enough excess allowances in one year to meet the shortage projected for 2014 and 2015.

PPL's Pennsylvania coal-fired generating plants can meet both the CAIR and the proposed CSAPR sulfur dioxide emission requirements with the existing scrubbers that went in-service in 2008 and 2009. For nitrogen oxide, under both the CAIR and the proposed CSAPR, PPL would need to buy allowances or make operational changes, the cost of which is not anticipated to be significant.

See Note 15 to the Financial Statements for additional information on the CSAPR.

Pending Bluegrass CTs Acquisition and NGCC Construction

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run plant site. In conjunction with this request and to meet new, stricter EPA regulations, LG&E and KU anticipate retiring six older coal-fired electric generating units. These units are located at the Cane Run, Green River and Tyrone plants, which have a combined summer rating of 797 MW. LG&E and KU also requested approval to purchase the Bluegrass CTs, which are expected to provide up to 495 MW of peak generation supply.

LG&E and KU anticipate that the NGCC construction and the acquisition of the Bluegrass CTs could require up to $800 million in capital costs including related transmission projects. Formal requests for recovery of the costs associated with the NGCC construction and the acquisition of the Bluegrass CTs were not included in the CPCN filing with the KPSC but are expected to be included in future rate proceedings. The KPSC issued an Order on the procedural schedule in the CPCN filing that has discovery scheduled through early February 2012. A KPSC order on the CPCN filing is anticipated in the second quarter of 2012. See Note 8 to the Financial Statements for additional information.

ECR Filing - Environmental Upgrades

In June 2011, in order to achieve compliance with new and pending mandated federal EPA regulations, LG&E and KU filed ECR plans with the KPSC requesting approval to install environmental upgrades for certain of their coal-fired plants and for recovery of the expected $2.5 billion in associated capital costs, as well as operating expenses incurred. The ECR plans detailed upgrades that will be made to certain of their coal-fired generating plants to continue to be compliant with EPA regulations. In November 2011, LG&E and KU filed a unanimous settlement agreement, stipulation, and recommendation with the KPSC. In December 2011, LG&E and KU received KPSC approval in their proceedings relating to the ECR plans. The KPSC Order approved the terms of the November 2011 settlement agreement entered into between LG&E and KU and the parties to the ECR proceedings. The KPSC Order authorized the installation of environmental upgrades at certain plants during 2012-2016 representing approximate capital costs of $2.3 billion. In connection with the approved projects, the KPSC Order allowed recovery through the ECR rate mechanism of the capital costs and operating expenses of the projects and granted CPCNs for their construction. The KPSC Order also confirmed an existing 10.63% authorized return on equity for projects remaining from earlier ECR plans and provided for an authorized return on equity of 10.10% for the approved projects in the 2011 ECR proceedings. The KPSC Order noted KU's consent to defer the requested approval for certain environmental upgrades at its E.W. Brown generating plant, which represented approximately $200 million in capital costs. KU retained the right to operate and dispatch the E.W. Brown generating plant in accordance with applicable environmental standards and the right to request approval of the deferred projects and related costs in future regulatory proceedings. See Note 6 to the Financial Statements for additional information.

Legislation - Regulatory Procedures and Mechanisms

In June 2011, the Pennsylvania House Consumer Affairs Committee approved legislation that would authorize the PUC to approve regulatory procedures and mechanisms to provide for more timely recovery of a utility's costs. Such alternative ratemaking procedures and mechanisms are important to PPL Electric as it begins a period of significant increasing capital investment related to the asset optimization program focused on the replacement of aging distribution assets. Those procedures and mechanisms include, but are not limited to, the use of a fully projected future test year and an automatic adjustment clause to recover certain capital costs and related operating expenses. In October 2011, the legislation was passed by the Pennsylvania House of Representatives (Pennsylvania House). In January 2012, the Senate Consumer Affairs Committee adopted significant amendments to the legislation. The amended legislation authorizes the PUC to approve only two specific ratemaking mechanisms -- a fully projected future test year and a distribution system improvement charge. In addition, the amendments impose a number of conditions on the use of such a charge. In January 2012, the Pennsylvania Senate passed the amended legislation and in February 2012, the Pennsylvania House agreed to those amendments. The Governor signed the bill (Act 11 of 2012), which will become effective April 14, 2012. Utilities cannot file a petition with the PUC before January 1, 2013 requesting permission to establish the charge.

FERC Formula Rates

In March 2012, PPL Electric plans to file a request with the FERC seeking recovery, over a 34-year period beginning in June 2012, of its unrecovered regulatory asset related to the deferred state tax liability that existed at the time of the transition from the flow-through treatment of state income taxes to full normalization. This change in tax treatment occurred in 2008 as a result of prior FERC initiatives that transferred regulatory jurisdiction of certain transmission assets from the PUC to the FERC. A regulatory asset of $51 million related to this transition, classified as taxes recoverable through future rates, is included in "Other Noncurrent Assets - Regulatory assets" on the Balance Sheet. PPL Electric believes recoverability of this regulatory asset is probable based on FERC precedent in similar cases; however, it is reasonably possible that the FERC may limit the recovery of all or part of the claimed asset.

Montana Hydroelectric Litigation

In June 2011, the U.S. Supreme Court granted PPL Montana's petition to review the March 2010 Montana Supreme Court decision, which substantially affirmed the June 2008 Montana District Court decision to award the State of Montana retroactive compensation for PPL Montana's hydroelectric facilities' use and occupancy of certain Montana riverbeds. Oral argument was held in December 2011. On February 22, 2012, the U.S. Supreme Court issued a decision overturning the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. As a result, PPL Montana reversed its total loss accrual of $89 million, which had been recorded prior to the U.S. Supreme Court decision. PPL Montana believes the U.S. Supreme Court decision resolves certain questions of liability in this case in favor of PPL Montana and leaves open for reconsideration by Montana courts, consistent with the findings of the U.S. Supreme Court, certain other questions. The State of Montana has 30 days from February 22, 2012 to petition the U.S. Supreme Court for a rehearing. PPL Montana has concluded it is no longer probable, but it remains reasonably possible, that a loss has been incurred. While unable to estimate a range of loss, PPL Montana believes that any such amount would not be material. See Note 15 to the Financial Statements for additional information.

Ofgem Pricing Model

In October 2010, Ofgem announced a pricing model that will be effective for the U.K. electricity distribution sector, including WPD, beginning April 2015. The model, known as RIIO (Revenues = Incentives + Innovation + Outputs), is intended to encourage investment in regulated infrastructure. Key components of the model are: an extension of the price review period from five to eight years, increased emphasis on outputs and incentives, enhanced stakeholder engagement including network customers, a stronger incentive framework to encourage more efficient investment and innovation, expansion of the current Low Carbon Network Fund to stimulate innovation and continued use of a single weighted average cost of capital. At this time, management does not expect the impact of this pricing model to be significant to WPD's operating results.

Ofgem Review of Line Loss Calculation

WPD has a $170 million liability recorded at December 31, 2011, calculated in accordance with an accepted methodology, related to the close-out of line losses for the prior price control period, DPCR4. Ofgem is currently consulting on the methodology used to calculate the final line loss incentive/penalty for the DPCR4. In October 2011, Ofgem issued a consultation paper citing two potential changes to the methodology, both of which would result in a reduction of the liability; however, it is uncertain at this time whether any changes will be made. Ofgem is expected to make a decision before the end of 2012.

Results of Operations

The "Statement of Income Analysis" explains the year-to-year changes in significant earnings components, including certain income statement line items, Kentucky Gross Margins, Pennsylvania Gross Delivery Margins by component and Unregulated Gross Energy Margins by region.

On April 1, 2011, PPL completed its acquisition of WPD Midlands. As PPL is consolidating WPD Midlands on a one-month lag, consistent with its accounting policy on consolidation of foreign subsidiaries, eight months of WPD Midlands' results of operations are included in PPL's results for 2011, with no comparable amounts for 2010. When discussing PPL's results of operations for 2011 compared with 2010, the results of WPD Midlands are isolated for purposes of comparability. WPD Midlands' results are included within "Segment Results - International Regulated Segment." See Note 10 to the Financial Statements for additional information regarding the acquisition.

On November 1, 2010, PPL completed its acquisition of LKE. LKE's results of operations are included in PPL's results for the full year of 2011, while 2010 includes LKE's operating results for the two months ended December 31, 2010. When discussing PPL's results of operations for 2011 compared with 2010 and 2010 compared with 2009, the results of LKE are isolated for purposes of comparability. LKE's results are shown separately within "Segment Results - Kentucky Regulated Segment." See Note 10 to the Financial Statements for additional information regarding the acquisition.

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

When comparing 2011 and 2010 with 2009, certain line items on PPL's financial statements were impacted by the Customer Choice Act, Act 129 and other related issues. Overall, the expiration at the end of 2009 of generation rate caps and the PLR contracts between PPL EnergyPlus and PPL Electric had a significant positive impact on PPL's 2010 results of operations, financial condition and cash flows.

The primary impacts of the expiration of the generation rate caps and the PLR contracts are reflected in PPL's Unregulated Gross Energy Margins. See "Statement of Income Analysis - Margins - Non-GAAP Financial Measures" for an explanation of this non-GAAP financial measure. In 2010, PPL sold the majority of its generation supply to unaffiliated parties under various wholesale and retail contracts at prevailing market rates at the time the contracts were executed. In 2009, the majority of generation produced by PPL's generation plants was sold to PPL Electric as PLR supply under predetermined capped rates.

Regarding PPL's Pennsylvania regulated electric delivery operations, the expiration of generation rate caps, the resulting competitive solicitations for power supply, the migration of customers to alternative suppliers, the Customer Choice Act and Act 129 had minimal impact on Pennsylvania Gross Delivery Margins, as approved recovery mechanisms allow for cost recovery of associated expenses, including the cost of energy provided as a PLR. However, PPL Electric's 2010 Pennsylvania Gross Delivery Margins were negatively impacted by the expiration of CTC recovery in December 2009. PPL Electric remains the delivery provider for all customers in its service territory and charges a regulated rate for its electricity delivery service. See "Statement of Income Analysis - Margins - Reconciliation of Non-GAAP Financial Measures" for additional information.

Earnings

	2011	2010	2009
Net Income Attributable to PPL Corporation	$ 1,495	$ 938	$ 407
EPS - basic	$ 2.71	$ 2.17	$ 1.08
EPS - diluted	$ 2.70	$ 2.17	$ 1.08

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

Segment Results

Net Income Attributable to PPL Corporation by segment and for "Unallocated Costs" was:

	2011	2010	2009
Kentucky Regulated (a)	$ 221	$ 26	
International Regulated (b)	325	261	$ 243
Pennsylvania Regulated	173	115	124
Supply	776	612	40
Unallocated Costs (c)		(76)	
Total	$ 1,495	$ 938	$ 407

(a) As a result of the LKE acquisition on November 1, 2010, the Kentucky Regulated segment includes two months of results in 2010.

(b) As a result of the WPD Midlands acquisition on April 1, 2011, the International Regulated segment includes eight months of WPD Midlands' results in 2011. Similar to PPL WW, WPD Midlands' results are recorded on a one-month lag.
(c) 2010 includes $22 million, after tax ($31 million, pre-tax), of certain third-party acquisition-related costs, including advisory, accounting, and legal fees associated with the acquisition of LKE that are recorded in "Other Income (Expense) - net" on the Statement of Income. 2010 also includes $52 million, after tax ($80 million, pre-tax), of 2010 Bridge Facility costs that are recorded in "Interest Expense" on the Statement of Income. These costs are considered special items by management. See Notes 7 and 10 to the Financial Statements for additional information on the acquisition and related financing.

Kentucky Regulated Segment

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

Net Income Attributable to PPL Corporation includes the following results:

	2011	2010 (a)
Operating revenues	$ 2,793	$ 493
Fuel and energy purchases	1,104	207
Other operation and maintenance	751	139
Depreciation	334	49
Taxes, other than income	37	2
Total operating expenses	2,226	397
Other Income (Expense) - net	(1)	(1)
Interest Expense (b)	217	55
Income Taxes	127	16
Income (Loss) from Discontinued Operations	(1)	2
Net Income Attributable to PPL Corporation	$ 221	$ 26

(a) Represents the results of operations for the two-month period from acquisition through December 31, 2010.
(b) Includes interest expense of $70 million in 2011 and $31 million in 2010, pre-tax, related to the 2010 Equity Units and certain interest rate swaps.

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

	Income Statement Line Item	2011	2010
Special items gains (losses), net of tax benefit (expense):			
Adjusted energy-related economic activity, net, net of tax of ($1), $1	Utility Revenues	$ 1	$ (1)
Other:			
LKE discontinued operations, net of tax of $1, ($2)	Disc. Operations	(1)	2
Total		$	$ 1

2012 Outlook

Excluding special items, PPL projects lower segment earnings in 2012 compared with 2011, primarily driven by higher operation and maintenance expense and higher depreciation, which are expected to be partially offset by higher margins.

Earnings beyond 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7 and Notes 6 and 15 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact future earnings.

International Regulated Segment

The International Regulated segment consists primarily of the electric distribution operations in the U.K. As a result of the WPD Midlands acquisition on April 1, 2011, the International Regulated segment includes eight months of WPD Midlands' results in 2011. Similar to PPL WW, WPD Midlands' results are recorded on a one-month lag.

Net Income Attributable to PPL Corporation includes the following results:

	2011	2010	% Change	2010	2009	% Change
Utility revenues	$ 828	$ 727	14	$ 727	$ 684	6
Energy-related businesses	35	34	3	34	32	6
Total operating revenues	863	761	13	761	716	6
Other operation and maintenance	198	182	9	182	140	30
Depreciation	122	117	4	117	115	2
Taxes, other than income	53	52	2	52	57	(9)
Energy-related businesses	17	17		17	16	6
Total operating expenses	390	368	6	368	328	12
Other Income (Expense) - net	12	3	300	3	(11)	(127)
Interest Expense (a)	193	135	43	135	87	55
Income Taxes	56		n/a		20	(100)
WPD Midlands, net of tax (b)	281		n/a			n/a
WPD Midlands acquisition-related costs, net of tax	(192)		n/a			n/a
Income (Loss) from Discontinued Operations			n/a		(27)	(100)
Net Income Attributable to PPL Corporation	$ 325	$ 261	25	$ 261	$ 243	7

(a) 2011 includes allocated interest expense of $38 million (pre-tax) related primarily to the 2011 Equity Units.
(b) Represents the operations of WPD Midlands since the acquisition date, recorded on a one-month lag, including revenue from external customers of $790 million (pre-tax). This amount excludes acquisition-related costs incurred by WPD Midlands.

The changes in the components of the International Regulated segment's results between these periods were due to the following factors. The segment's results are adjusted for certain items that management considers special. See additional detail of these special items in the table below. The amounts for PPL WW are presented on a constant U.K. foreign currency exchange rate basis in order to isolate the impact of the change in the exchange rate.

	2011 vs. 2010	2010 vs. 2009
PPL WW		
Utility revenues	$ 77	$ 42
Other operation and maintenance	(10)	(47)
Interest expense	(14)	(50)
Other	3	6
Income taxes	(55)	26
WPD Midlands, after-tax	240	
U.S.		
Interest expense and other	(41)	(1)
Income taxes	37	(32)
Foreign currency exchange rates, after-tax	15	14
Special items, after-tax	(188)	60
Total	$ 64	$ 18

PPL WW

- Utility revenues increased in 2011 compared with 2010, primarily reflecting the impact of the April 2011 and 2010 price increases that resulted in $76 million of additional revenue.

  Utility revenues increased in 2010 compared with 2009, reflecting the impact of the April 2010 and 2009 price increases that resulted in $52 million of additional revenue and an increase in volume that resulted in $7 million of additional revenue. These amounts were partially offset by $17 million of lower regulatory recovery due to a revised estimate of network electricity line losses.

- Other operation and maintenance expense increased in 2011 compared with 2010, primarily due to $10 million of higher pension expense resulting from an increase in amortization of actuarial losses and $9 million of higher network maintenance expense, partially offset by $8 million of internal PPL WW costs billed to WPD Midlands.

  Other operation and maintenance expense increased in 2010 compared with 2009, primarily due to $32 million of higher pension expense resulting from an increase in amortization of actuarial losses, $5 million of higher network maintenance expense and $3 million of higher direct costs.

- Interest expense increased in 2011 compared with 2010, primarily due to $11 million of higher interest expense arising from a March 2010 debt issuance and $5 million of higher interest expense related to higher inflation rates on index-linked Senior Unsecured Notes.

Interest expense increased in 2010 compared with 2009, primarily due to $25 million of higher interest expense arising from a March 2010 debt issuance and $23 million of higher interest expense related to higher inflation rates on index-linked Senior Unsecured Notes.

- Income taxes increased in 2011 compared with 2010, primarily due to a $46 million benefit recorded in 2010 for realized capital losses that offset a gain relating to a business activity sold in 1999 and $15 million due to higher pre-tax income.

  Income taxes decreased in 2010 compared with 2009, primarily due to $46 million of realized capital losses that offset a gain relating to a business activity sold in 1999 and $14 million of lower income taxes due to lower pre-tax income, partially offset by a $29 million foreign tax benefit related to the resolution of a tax dispute and foreign currency exchange losses.

U.S.

- Interest expense increased in 2011 compared with 2010, due to $34 million of interest expense on the 2011 Equity Units and $4 million on the 2011 Bridge Facility.

- Income taxes decreased in 2011 compared with 2010, primarily due to a $41 million tax benefit resulting from changes in the taxable amount of planned U.K. cash repatriations, a tax benefit of $28 million from U.K. pension plan contributions and lower income taxes due to lower pre-tax income. These tax benefits were partially offset by $24 million of favorable 2010 adjustments to uncertain tax benefits primarily related to Windfall Profits Tax and $11 million of higher income taxes on interest income related to acquisition financing.

  Income taxes increased in 2010 compared with 2009, primarily due to $60 million of income tax resulting from changes in the taxable amount of planned U.K. cash repatriations, partially offset by $23 million of adjustments to uncertain tax benefits, primarily related to Windfall Profits Tax.

Foreign Currency Exchange Rates

- Changes in foreign currency exchange rates positively impacted the segment's earnings for 2011 compared with 2010 and 2010 compared with 2009. The weighted-average exchange rates for the British pound sterling, including the effects of currency hedges, were approximately $1.60 in 2011, $1.57 in 2010 and $1.49 in 2009.

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

	Income Statement Line Item	2011	2010	2009
Special items gains (losses), net of tax benefit (expense):				
Foreign currency-related economic hedges, net of tax of ($2), $0, $0 (a)	Other Income-net	$ 5	$ 1	$ 1
Sales of assets:				
Latin American business	Disc. Operations			(27)
Impairments:				
Other asset impairments, net of tax of $0, $0, $1	Other O&M			(1)
WPD Midlands acquisition-related costs:				
2011 Bridge Facility costs, net of tax of $14, $0, $0 (b)	Interest Expense	(30)		
Foreign currency loss on 2011 Bridge Facility, net of tax of $19, $0, $0 (c)	Other Income-net	(38)		
Net hedge gains, net of tax of ($17), $0, $0 (c)	Other Income-net	38		
Hedge ineffectiveness, net of tax of $3, $0, $0 (d)	Interest Expense	(9)		
U.K. stamp duty tax, net of tax of $0, $0, $0 (e)	Other Income-net	(21)		
Separation benefits, net of tax of $26, $0, $0 (f)	Other O&M	(75)		
Other acquisition-related costs, net of tax of $20, $0, $0	(g)	(57)		
Workforce reduction, net of tax of $0, $0, $1 (h)	Other O&M			(2)
Other:				
Change in U.K. tax rate (i)	Income Taxes	69	18	
Windfall profits tax litigation (j)	Income Taxes	(39)	12	
Total		$ (157)	$ 31	$ (29)

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated earnings denominated in GBP.
(b) Represents fees incurred in connection with establishing the 2011 Bridge Facility. See Note 7 to the Financial Statements for additional information.
(c) Represents the foreign currency loss on the repayment of the 2011 Bridge Facility, including a pre-tax foreign currency loss of $15 million associated with proceeds received on the U.S. dollar-denominated senior notes issued by PPL WEM in April 2011 that were used to repay a portion of PPL WEM's borrowing under the 2011 Bridge Facility. The foreign currency risk was economically hedged with forward contracts to purchase GBP, which resulted in pre-tax gains of $55 million.

(d) Represents a combination of ineffectiveness associated with closed out interest rate swaps and a charge recorded as a result of certain interest rate swaps failing hedge effectiveness testing.
(e) Tax on the transfer of ownership of property in the U.K., which is not tax deductible for income tax purposes.
(f) Primarily represents severance compensation, early retirement deficiency costs and outplacement services for employees separating from the WPD Midlands companies as a result of a reorganization to transition the WPD Midlands companies to the same operating structure as WPD (South West) and WPD (South Wales). Also includes severance compensation and early retirement deficiency costs associated with certain employees who separated from the WPD Midlands companies, but were not part of the reorganization.
(g) Includes $34 million, pre-tax, of advisory, accounting and legal fees which are reflected in "Other Income (Expense) - net" on the Statements of Income. Includes $37 million, pre-tax, of costs, primarily related to the termination of certain contracts, rebranding costs and relocation costs that were recorded to "Other operation and maintenance" expense on the Statements of Income, and $6 million, pre-tax, of costs associated with the integration of certain information technology assets, that were recorded in "Depreciation" on the Statements of Income.
(h) Relates primarily to enhanced pension and severance benefits as a result of a 2009 workforce reduction.
(i) The U.K.'s Finance Act of 2011, enacted in July 2011, reduced the U.K. statutory income tax rate from 27% to 26% retroactive to April 1, 2011 and will further reduce the rate from 26% to 25% effective April 1, 2012. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during 2011 related to both rate decreases. WPD Midlands' portion of the deferred tax benefit is $35 million. The U.K.'s Finance Act of 2010, enacted in July 2010, reduced the U.K. statutory income tax rate from 28% to 27% effective April 1, 2011. As a result, WPD reduced its net deferred tax liabilities and recognized a deferred tax benefit during 2010.
(j) In 2010, the U.S. Tax Court ruled in PPL's favor in a pending dispute with the IRS concluding that the 1997 U.K. Windfall Profits Tax (WPT) imposed on all U.K. privatized utilities, including PPL's U.K. subsidiary, is a creditable tax for U.S. Federal income tax purposes. As a result, PPL recorded an income tax benefit in 2010. In January 2011, the IRS appealed the U.S. Tax Court's decision to the Court of Appeals for the Third Circuit (Third Circuit). In December 2011, the Third Circuit issued its opinion reversing the Tax Court's decision and holding that the WPT is not a creditable tax. As a result of the Third Circuit's adverse determination, PPL recorded a $39 million expense in 2011. On February 27, 2012, PPL filed with the Third Circuit a petition for rehearing of its opinion on this matter.

2012 Outlook

Excluding special items, PPL projects higher segment earnings in 2012 compared with 2011, primarily driven by a full year of earnings from WPD Midlands and higher electricity delivery revenue. Partially offsetting these positive earnings factors are higher income taxes, higher operation and maintenance expense, higher depreciation, higher financing costs and a less favorable currency exchange rate.

Earnings beyond 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7 and Notes 6 and 15 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact future earnings.

Pennsylvania Regulated Segment

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

Net Income Attributable to PPL Corporation includes the following results:

	2011	2010	% Change	2010	2009	% Change
Operating revenues						
External	$ 1,881	$ 2,448	(23)	$ 2,448	$ 3,218	(24)
Intersegment	11	7	57	7	74	(91)
Total operating revenues	1,892	2,455	(23)	2,455	3,292	(25)
Energy purchases						
External	738	1,075	(31)	1,075	114	843
Intersegment	26	320	(92)	320	1,806	(82)
Other operation and maintenance	530	502	6	502	417	20
Amortization of recoverable transition costs			n/a		304	(100)
Depreciation	146	136	7	136	128	6
Taxes, other than income	104	138	(25)	138	194	(29)
Total operating expenses	1,544	2,171	(29)	2,171	2,963	(27)
Other Income (Expense) - net	7	7		7	10	(30)
Interest Expense	98	99	(1)	99	118	(16)
Income Taxes	68	57	19	57	79	(28)
Net Income	189	135	40	135	142	(5)
Net Income Attributable to Noncontrolling Interests (Note 3)	16	20	(20)	20	18	11
Net Income Attributable to PPL Corporation	$ 173	$ 115	50	$ 115	$ 124	(7)

The changes in the components of the Pennsylvania Regulated segment's results between these periods were due to the following factors. The segment's results are adjusted for certain items that management considers special. See additional detail of these special items in the table below.

	2011 vs. 2010	2010 vs. 2009
Pennsylvania gross delivery margins	$ 66	$ 3
Other operation and maintenance	4	(49)
Depreciation	(10)	(8)
Interest Expense	1	19
Other	4	(4)
Income Taxes	(11)	23
Noncontrolling Interests	4	(2)
Special Items, after-tax		9
Total	$ 58	$ (9)

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Pennsylvania Gross Delivery Margins.

- Other operation and maintenance increased in 2010 compared with 2009, primarily due to $18 million in higher payroll-related costs and $20 million in higher contractor costs, primarily related to vegetation management.

- Depreciation was higher in 2011 compared with 2010 and 2010 compared with 2009, primarily due to PP&E additions as a part of ongoing efforts to replace aging infrastructure.

- Interest expense decreased in 2010 compared with 2009, primarily due to a $16 million reduction driven by lower average debt balances in 2010 compared with 2009.

- Income taxes were higher in 2011 compared with 2010, due to the $26 million impact of higher pre-tax income, partially offset by a $14 million tax benefit related to the impact of flow-through regulated tax depreciation that is primarily related to the Pennsylvania Department of Revenue interpretive guidance regarding 100% bonus depreciation.

  Income taxes were lower in 2010 compared with 2009, due to the $14 million impact of lower pre-tax income and a $7 million tax benefit relating to a favorable 2010 U.S. Tax Court ruling regarding street lighting assets.

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

	Income Statement Line Item	2009
Special items gains (losses), net of tax benefit (expense):		
Impairments:		
Other asset impairments, net of tax of $1	Other O&M	$ (1)
Workforce reduction, net of tax of $3 (a)	Other O&M	(5)
Other:		
Change in tax accounting method related to repairs (b)	Income Taxes	(3)
Total		$ (9)

(a) Charge related to a workforce reduction, mainly consisting of enhanced pension and severance benefits.
(b) During 2009, PPL Electric received consent from the IRS to change its method of accounting for certain expenditures for tax purposes. PPL Electric deducted the resulting IRC Sec. 481 amount on its 2008 federal income tax return and recorded a $3 million adjustment to federal and state income tax expense resulting from the reversal of prior years' state income tax benefits related to regulated depreciation.

2012 Outlook

Excluding special items, PPL projects lower segment earnings in 2012 compared with 2011, primarily driven by higher operation and maintenance expenses, higher income taxes, and higher depreciation, which are expected to be partially offset by higher delivery revenue.

In late March 2012, PPL Electric expects to file a request with the PUC seeking an increase in its distribution rates beginning in January 2013. PPL Electric cannot predict the outcome of this matter.

Earnings beyond 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7 and Notes 6 and 15 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact future earnings.

Supply Segment

The Supply segment primarily consists of the energy marketing and trading activities, as well as the competitive generation and development operations of PPL Energy Supply. In 2011, 2010 and 2009, PPL Energy Supply subsidiaries completed the sale of several businesses, which have been classified as Discontinued Operations. See Note 9 to the Financial Statements for additional information.

Net Income Attributable to PPL Corporation includes the following results:

	2011	2010	% Change	2010	2009	% Change
Energy revenues						
External (a)	$ 5,938	$ 4,444	34	$ 4,444	$ 3,124	42
Intersegment	26	320	(92)	320	1,806	(82)
Energy-related businesses	472	375	26	375	391	(4)
Total operating revenues	6,436	5,139	25	5,139	5,321	(3)
Fuel and energy purchases						
External (a)	3,357	2,440	38	2,440	3,586	(32)
Intersegment	4	3	33	3	70	(96)
Other operation and maintenance	882	934	(6)	934	865	8
Depreciation	262	254	3	254	212	20
Taxes, other than income	72	46	57	46	29	59
Energy-related businesses	467	366	28	366	380	(4)
Total operating expenses	5,044	4,043	25	4,043	5,142	(21)
Other Income (Expense) - net	43	(9)	(578)	(9)	48	(119)
Other-Than-Temporary Impairments	6	3	100	3	18	(83)
Interest Expense	192	224	(14)	224	182	23
Income Taxes	463	228	103	228	6	3,700
Income (Loss) from Discontinued Operations	3	(19)	(116)	(19)	20	(195)
Net Income	777	613	27	613	41	1,395
Net Income Attributable to Noncontrolling Interests	1	1		1	1	
Net Income Attributable to PPL Corporation	$ 776	$ 612	27	$ 612	$ 40	1,430

(a) Includes the impact from energy-related economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 19 to the Financial Statements for additional information.

The changes in the components of the Supply segment's results between these periods were due to the following factors. The segment's results are adjusted for certain items that management considers special. See additional detail of these special items in the table below.

	2011 vs. 2010	2010 vs. 2009
Unregulated gross energy margins	$ (405)	$ 1,039
Other operation and maintenance	(63)	(55)
Depreciation	(8)	(42)
Taxes other than income	(10)	(2)
Other Income (Expense) - net	25	(15)
Interest Expense	(12)	(8)
Other	(7)	(3)
Income Taxes	107	(270)
Discontinued operations, after-tax - excluding certain revenues and expenses included in margins	17	13
Special items, after-tax	520	(85)
Total	$ 164	$ 572

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Unregulated Gross Energy Margins.

- Other operation and maintenance increased in 2011 compared with 2010, primarily due to higher costs at PPL Susquehanna of $27 million, largely due to unplanned outages, the refueling outage and payroll, higher costs at eastern fossil and hydro units of $23 million, largely due to outages, and higher costs at western fossil and hydro units of $12 million, largely resulting from insurance recoveries received in 2010.

  Other operation and maintenance increased in 2010 compared with 2009, primarily due to higher costs at PPL Susquehanna of $34 million largely due to higher payroll-related costs, higher outage costs, and higher project costs.

- Depreciation increased in 2010 compared with 2009, primarily due to the $21 million impact from environmental equipment at Brunner Island that was placed in service in 2009 and early 2010.

- Other income (expense) - net was higher in 2011 compared with 2010, due to a $22 million gain on the accelerated amortization of the fair value adjustment to the debt recorded in connection with previously settled fair value hedges. The accelerated amortization was the result of the July 2011 redemption of Senior Secured Bonds.

  Other income (expense) - net was lower in 2010 compared with 2009, due to a $29 million gain recognized in 2009 related to the tender offers to purchase debt that resulted from reclassifying net gains on related cash flow hedges from AOCI into earnings, partially offset by a $15 million decrease in other-than-temporary impairment charges, primarily due to stronger returns on investments in NDT funds in 2010.

- Income taxes decreased in 2011 compared with 2010, primarily due to the $204 million impact of lower pre-tax income and a $26 million reduction in deferred tax liabilities related to a change in the Pennsylvania estimated state tax rate. These decreases were partially offset by $101 million in Pennsylvania net operating loss valuation allowance adjustments, primarily related to lower projected future taxable income, driven in part by the impact of bonus depreciation, $16 million in favorable adjustments to uncertain tax benefits recorded in 2010 and an $11 million decrease in the domestic manufacturing deduction tax benefit resulting from revised bonus depreciation estimates.

  Income taxes increased in 2010 compared with 2009, primarily due to the $348 million impact of higher pre-tax income, partially offset by a $52 million in Pennsylvania net operating loss valuation allowance adjustments, primarily related to higher projected future taxable income, $10 million in investment tax credits associated with the Holtwood and Rainbow projects, $11 million in favorable adjustments to uncertain tax benefits recorded in 2010 and $8 million of higher tax benefits from the domestic manufacturing deduction.

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

	Income Statement Line Item	2011	2010	2009
Special items gains (losses), net of tax benefit (expense):				
Adjusted energy-related economic activity, net, net of tax of ($52), $85, $158	(a)	$ 72	$ (121)	$ (225)
Sales of assets:				
Maine hydroelectric generation business, net of tax of $0, ($9), ($16) (b)	Disc. Operations		15	22
Sundance indemnification, net of tax of $0, $0, $0	Other Income-net		1	
Long Island generation business, net of tax of $0, $0, $19 (c)	Disc. Operations			(33)
Interest in Wyman Unit 4, net of tax of $0, $0, $2	Disc. Operations			(4)
Impairments:				
Emission allowances, net of tax of $1, $6, $14 (d)	Other O&M	(1)	(10)	(19)
Renewable energy credits, net of tax of $2, $0, $0 (Note 13)	Other O&M	(3)		
Other asset impairments, net of tax of $1, $0, $2	Other O&M			(4)
Workforce reduction, net of tax of $0, $0, $4 (e)	Other O&M			(6)
LKE acquisition-related costs:				
Monetization of certain full-requirement sales contracts, net of tax of $0, $89, $0	(f)		(125)	
Sale of certain non-core generation facilities, net of tax of $0, $37, $0 (c)	Disc. Operations	(2)	(64)	
Discontinued cash flow hedges and ineffectiveness, net of tax of $0, $15, $0 (g)	Other Income-net		(28)	
Reduction of credit facility, net of tax of $0, $4, $0 (h)	Interest Expense		(6)	
Other:				
Montana hydroelectric litigation, net of tax of ($30), $22, $2	(i)	45	(34)	(3)
Litigation settlement - spent nuclear fuel storage, net of tax of ($24), $0, $0 (j)	Fuel	33		
Health care reform - tax impact (k)	Income Taxes		(8)	
Montana basin seepage litigation, net of tax of $0, ($1), $0	Other O&M		2	
Change in tax accounting method related to repairs (l)	Income Taxes			(21)
Counterparty bankruptcy, net of tax of $5, $0, $0 (m)	Other O&M	(6)		
Wholesale supply cost reimbursement, net of tax of ($3), $0, $0	(n)	4		
Total		$ 142	$ (378)	$ (293)

(a) See "Reconciliation of Economic Activity" below.
(b) Gains recorded on the sale of the Maine hydroelectric generation business. See Note 9 to the Financial Statements for additional information.
(c) Consists primarily of the initial impairment charge recorded when the business was classified as held for sale. See Note 9 to the Financial Statements for additional information.
(d) Primarily represents impairment charges of sulfur dioxide emission allowances.
(e) Relates primarily to enhanced pension and severance benefits as a result of a 2009 workforce reduction.
(f) In July 2010, in order to raise additional cash for the LKE acquisition, certain full-requirement sales contracts were monetized that resulted in cash proceeds of $249 million. See "Monetization of Certain Full-Requirement Sales Contracts" in Note 19 to the Financial Statements for additional information. $343 million of pre-tax gains were recorded to "Wholesale energy marketing" and $557 million of pre-tax losses were recorded to "Energy purchases" on the Statements of Income.
(g) As a result of the expected net proceeds from the anticipated sale of certain non-core generation facilities, coupled with the monetization of certain full-requirement sales contracts, debt that had been planned to be issued by PPL Energy Supply in 2010 was no longer needed. As a result, hedge accounting associated with interest rate swaps entered into by PPL in anticipation of a debt issuance by PPL Energy Supply was discontinued.

(h) In October 2010, PPL Energy Supply made borrowings under its Syndicated Credit Facility in order to enable a subsidiary to make loans to certain affiliates to provide interim financing of amounts required by PPL to partially fund PPL's acquisition of LKE. Subsequent to the repayment of such borrowing, the capacity was reduced, and as a result, PPL Energy Supply wrote off deferred fees in 2010.

(i) In 2009, PPL Montana adjusted its previously recorded accrual related to hydroelectric litigation, of which $5 million, pre-tax, related to prior periods. In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. In 2010, PPL Montana recorded a pre-tax charge of $56 million, representing estimated rental compensation for years prior to 2010, including interest. Of this total charge $47 million, pre-tax, was recorded to "Other operation and maintenance" and $9 million, pre-tax, was recorded to "Interest Expense" on the Statements of Income. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the U.S. Supreme Court granted PPL Montana's petition. In February 2012, the U.S. Supreme Court overturned the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. Prior to the U.S. Supreme Court decision, $4 million, pre-tax, of interest expense on the rental compensation covered by the court decision was accrued in 2011. As a result of the U.S. Supreme Court decision, PPL Montana reversed its total pre-tax loss accrual of $89 million, which had been recorded prior to the U.S. Supreme Court decision, of which $79 million pre-tax is considered a special item because it represented $65 million of rent for periods prior to 2011 and $14 million of interest accrued on the portion covered by the prior court decision. These amounts were credited to "Other operation and maintenance" and "Interest Expense" on the Statement of Income.

(j) In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna plant. PPL Susquehanna recorded credits to fuel expense to recognize recovery, under the settlement agreement, of certain costs to store spent nuclear fuel at the Susquehanna plant. This special item represents amounts recorded in 2011 to cover the costs incurred from 1998 through December 2010.

(k) Represents income tax expense recorded as a result of the provisions within Health Care Reform which eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage.

(l) During 2009, PPL Energy Supply received consent from the IRS to change its method of accounting for certain expenditures for tax purposes. PPL Energy Supply deducted the resulting IRC Sec. 481 amount on its 2008 federal income tax return and recorded a $21 million adjustment to federal and state income tax expense resulting from the reduction in federal income tax benefits related to the domestic manufacturing deduction and certain state tax benefits related to state net operating losses.

(m) In October 2011, a wholesale customer, SMGT, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy code. The customer has continued to purchase electricity at the price specified in the supply contract, and has made timely payments for such purchases, but at lower volumes than as prescribed in the contract. As of December 31, 2011, the damage claim totaled $11 million pre-tax, which was fully reserved.

(n) In January 2012, PPL received $7 million pre-tax, related to electricity delivered to a wholesale customer in 2008 and 2009, recorded in "Wholesale energy marketing-Realized." The additional revenue results from several transmission projects approved at PJM for recovery that were not initially anticipated at the time of the electricity auctions and therefore were not included in the auction pricing. A FERC order was issued in 2011 approving the disbursement of these supply costs by the wholesale customer to the suppliers, therefore, PPL accrued its share of this additional revenue in 2011.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) from the table within "Commodity Price Risk (Non-trading) - Economic Activity" in Note 19 to the Financial Statements to the special item identified as "Adjusted energy-related economic activity, net."

	2011	2010	2009
Operating Revenues			
Unregulated retail electric and gas	$ 31	$ 1	$ 6
Wholesale energy marketing	1,407	(805)	(229)
Operating Expenses			
Fuel	6	29	49
Energy Purchases	(1,123)	286	(155)
Energy-related economic activity (a)	321	(489)	(329)
Option premiums (b)	19	32	(54)
Adjusted energy-related economic activity	340	(457)	(383)
Less: Unrealized economic activity associated with the monetization of certain full-requirement sales contracts in 2010 (c)		(251)	
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010	216		
Adjusted energy-related economic activity, net, pre-tax	$ 124	$ (206)	$ (383)
Adjusted energy-related economic activity, net, after-tax	$ 72	$ (121)	$ (225)

(a) See Note 19 to the Financial Statements for additional information.
(b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. Option premiums are recorded in "Wholesale energy marketing - Realized" and "Energy purchases - Realized" on the Statements of Income.
(c) See "Components of Monetization of Certain Full-Requirement Sales Contracts" below.

Components of Monetization of Certain Full-Requirement Sales Contracts

The following table provides the components of the "Monetization of Certain Full-Requirement Sales Contracts" special item.

	2010
Full-requirement sales contracts monetized (a)	$ (68)
Economic activity related to the full-requirement sales contracts monetized	(146)
Monetization of certain full-requirement sales contracts, pre-tax (b)	$ (214)
Monetization of certain full-requirement sales contracts, after-tax	$ (125)

(a) See "Commodity Price Risk (Non-trading) - Monetization of Certain Full-Requirement Sales Contracts" in Note 19 to the Financial Statements for additional information.
(b) Includes unrealized losses of $251 million, which are reflected in "Wholesale energy marketing - Unrealized economic activity" and "Energy purchases - Unrealized economic activity" on the Statement of Income. Also includes net realized gains of $37 million, which are reflected in "Wholesale energy marketing - Realized" and "Energy purchases - Realized" on the Statement of Income. This economic activity will continue to be realized through May 2013.

2012 Outlook

Excluding special items, PPL projects lower segment earnings in 2012 compared with 2011. The decrease is primarily driven by lower energy margins as a result of further declines in energy and capacity prices and higher fuel costs, higher operation and maintenance expenses and higher depreciation, which are partially offset by higher baseload generation.

Earnings beyond 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7 and Note 15 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measures

The following discussion includes financial information prepared in accordance with GAAP, as well as three non-GAAP financial measures: "Kentucky Gross Margins," "Pennsylvania Gross Delivery Margins" and "Unregulated Gross Energy Margins." These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL believes that these measures provide additional criteria to make investment decisions. These performance measures are used, in conjunction with other information, internally by senior management and the Board of Directors to manage the Kentucky Regulated, Pennsylvania Regulated and Supply segment operations, analyze each respective segment's actual results compared with budget and, in certain cases, to measure certain corporate financial goals used in determining variable compensation.

PPL's three non-GAAP financial measures include:

- "Kentucky Gross Margins" is a single financial performance measure of the Kentucky Regulated segment's electricity generation, transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expense and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. These mechanisms allow for recovery of certain expenses, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from the Kentucky Regulated segment's operations.

- "Pennsylvania Gross Delivery Margins" is a single financial performance measure of the Pennsylvania Regulated segment's electric delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance-" expense, which is primarily Act 129 costs, and in "Taxes, other than income," which is primarily gross receipts tax. These mechanisms allow for recovery of certain expenses; therefore, certain expenses and revenues offset with minimal impact on earnings. This performance measure includes PLR energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "PLR intersegment Utility revenue (expense)" in the table below. As a result, this measure represents the net revenues from the Pennsylvania Regulated segment's electric delivery operations.

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

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to PPL's three non-GAAP financial measures.

	2011					2010				
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins (c)	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues										
Utility	$ 2,791	$ 1,881		$ 1,620 (d)	$ 6,292		$ 2,448		$ 1,220 (d)	$ 3,668
PLR intersegment Utility revenue (expense) (e)		(26)	$ 26				(320)	$ 320		
Unregulated retail electric and gas			696	30	726			414	1	415
Wholesale energy marketing										
Realized			3,745	62 (f)	3,807			4,511	321 (f)	4,832
Unrealized economic activity				1,407 (g)	1,407				(805) (g)	(805)
Net energy trading margins			(2)		(2)			2		2
Energy-related businesses				507	507				409	409
Total Operating Revenues	2,791	1,855	4,465	3,626	12,737		2,128	5,247	1,146	8,521
Operating Expenses										
Fuel	866		1,151	(71) (h)	1,946			1,132	103 (h)	1,235
Energy purchases										
Realized	238	738	912	242 (f)	2,130		1,075	1,389	309 (f)	2,773
Unrealized economic activity				1,123 (g)	1,123				(286) (g)	(286)
Other operation and maintenance	90	108	16	2,453	2,667		76	23	1,657	1,756
Depreciation	49			911	960				556	556
Taxes, other than income		99	30	197	326		129	14	95	238
Energy-related businesses				484	484				383	383
Intercompany eliminations		(11)	3	8			(7)	3	4	
Total Operating Expenses	1,243	934	2,112	5,347	9,636		1,273	2,561	2,821	6,655
Discontinued operations			12	(12) (i)				84	(84) (i)	
Total	$ 1,548	$ 921	$ 2,365	$ (1,733)	$ 3,101		$ 855	$ 2,770	$ (1,759)	$ 1,866

	2009			
	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues				
Utility	$ 3,218		$ 684 (d)	$ 3,902
PLR intersegment Utility revenue (expense) (e)	(1,806)	$ 1,806		
Unregulated retail electric and gas		146	6	152
Wholesale energy marketing				
Realized		3,235	(51) (f)	3,184
Unrealized economic activity			(229) (g)	(229)
Net energy trading margins		17		17
Energy-related businesses			423	423
Total Operating Revenues	1,412	5,204	833	7,449
Operating Expenses				
Fuel		977	(57) (h)	920
Energy purchases				
Realized	114	2,509	2 (f)	2,625
Unrealized economic activity			155 (g)	155
Other operation and maintenance	30	30	1,358	1,418
Amortization of recoverable transition costs	304			304
Depreciation			455	455
Taxes, other than income	186		94	280
Energy-related businesses			396	396
Intercompany eliminations	(74)	70	4	
Total Operating Expenses	560	3,586	2,407	6,553
Discontinued operations		113	(113) (i)	
Total	$ 852	$ 1,731	$ (1,687)	$ 896

(a) Represents amounts excluded from Margins.
(b) As reported on the Statement of Income.
(c) LKE was acquired on November 1, 2010. Kentucky Gross Margins were not used to measure the financial performance of the Kentucky Regulated segment in 2010.
(d) Primarily represents WPD's utility revenue. 2010 also includes LKE's utility revenues for the two-month period subsequent to the November 1, 2010 acquisition.
(e) Primarily related to PLR supply sold by PPL EnergyPlus to PPL Electric.
(f) Represents energy-related economic activity, as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements. For 2011, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" include a net pre-tax gain of $19 million related to the amortization of option premiums and a net pre-tax loss of $216 million related to the monetization of certain full-requirement sales contracts. 2010 includes a net pre-tax gain of $32 million related to the amortization of option premiums and a net pre-tax gain of $37 million related to the monetization of certain full-requirement sales contracts. 2009 includes a net pre-tax loss of $54 million related to the amortization of option premiums.
(g) Represents energy-related economic activity, which is subject to wide swings in value due to market price volatility, as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements.
(h) Includes economic activity related to fuel. 2011 includes credits of $57 million for the spent nuclear fuel litigation settlement.
(i) Represents the net of certain revenues and expenses associated with certain businesses that are classified as discontinued operations. These revenues and expenses are not reflected in "Operating Income" on the Statements of Income.

Changes in Non-GAAP Financial Measures

The following table shows PPL's three non-GAAP financial measures, as well as the change between periods. The factors that gave rise to the changes are described below the table.

	2011	2010	Change	2010	2009	Change
Kentucky Gross Margins (a)	$ 1,548		$ 1,548			
PA Gross Delivery Margins by Component						
Distribution	$ 741	$ 679	$ 62	$ 679	$ 702	$ (23)
Transmission	180	176	4	176	150	26
Total	$ 921	$ 855	$ 66	$ 855	$ 852	$ 3
Unregulated Gross Energy Margins by Region						
Non-trading						
Eastern U.S.	$ 2,018	$ 2,429	$ (411)	$ 2,429	$ 1,391	$ 1,038
Western U.S.	349	339	10	339	323	16
Net energy trading	(2)	2	(4)	2	17	(15)
Total	$ 2,365	$ 2,770	$ (405)	$ 2,770	$ 1,731	$ 1,039

(a) LKE was acquired on November 1, 2010. Kentucky Gross Margins were not used to measure the financial performance of the Kentucky Regulated segment in 2010.

Kentucky Gross Margins

PPL acquired LKE on November 1, 2010. Margins for 2011 are included in PPL's results without comparable amounts for 2010.

Pennsylvania Gross Delivery Margins

<u>Distribution</u>

The PPL Electric distribution rate case increased rates by approximately 1.6% effective January 1, 2011, which improved residential distribution margins by $68 million. Residential volume variances increased margins by an additional $4 million for 2011, compared with the same period in 2010. Weather had a $3 million unfavorable impact for residential customers for 2011 compared with 2010. Weather-related variances for PPL Electric are calculated based on a ten-year historical average. Lastly, lower demand charges and increased efficiency as a result of Act 129 programs resulted in a $5 million decrease in margins for commercial and industrial customers.

The decrease in 2010 compared with 2009 was primarily due to margins realized in 2009 related to the collection of CTC that ended in December 2009 of $37 million, partially offset by favorable recovery mechanisms for certain energy-related costs of $16 million.

<u>Transmission</u>

The increase in 2010 compared with 2009 was primarily due to increased investment in rate base, an increase in the cost of capital due to an increase in equity and the recovery of additional costs through the FERC formula-based rates.

Unregulated Gross Energy Margins

<u>Eastern U.S.</u>

The changes in Eastern U.S. non-trading margins were:

	2011 vs. 2010	2010 vs. 2009
Baseload energy, capacity and ancillaries (a)	$ (199)	$ 1,143
Coal and hydroelectric generation volume (b)	(72)	21
Impact of non-core generation facilities sold in the first quarter of 2011	(48)	
Monetization of certain deals that rebalanced the business and portfolio	(41)	(48)
Higher coal prices	(40)	(38)
Margins on the intermediate and peaking units (c)	(34)	17
Nuclear generation volume (d)	(29)	(32)
Higher nuclear fuel prices	(10)	(8)
Retail electric business	(7)	23
Full-requirement sales contracts (e)	70	(46)
Other	(1)	6
	$ (411)	$ 1,038

(a) Baseload energy and capacity prices were lower in 2011 than 2010; however, prices in 2010 for baseload generation were significantly higher than prices realized under the PLR contract with PPL Electric that expired at the end of 2009.

(b) Volumes were lower in 2011 compared with 2010 as a result of unplanned outages, economic reductions in coal unit output and the sale of our interest in Safe Harbor Water Power Corporation. Volumes were higher in 2010 compared with 2009 as a result of planned overhauls.
(c) Lower margins in 2011 compared with 2010 were driven by lower capacity prices, partially offset by higher generation volumes in the first half of 2011. Higher margins in 2010 compared with 2009 were due to higher energy and capacity prices.
(d) Volumes were lower in 2011 compared with 2010 primarily as a result of the dual-unit turbine blade replacement outages beginning in May 2011. Volumes were lower in 2010 compared with 2009 primarily due to an unplanned outage in July 2010.
(e) Higher margins in 2011 compared with 2010 were driven by contracts monetized in 2010 and lower customer migration to alternative suppliers in 2011. Lower margins in 2010 compared with 2009 were driven by lower customer demand and higher customer migration to alternative suppliers.

Western U.S.

Western U.S. non-trading margins were higher in 2011 compared with 2010, due to higher net wholesale prices of $58 million, partially offset by lower wholesale volumes of $45 million, primarily due to economic reductions in coal unit output.

Western U.S. non-trading margins were higher in 2010 compared with 2009, primarily due to higher net wholesale prices of $11 million and higher wholesale volumes of $14 million, due to unplanned outages in 2009.

Net Energy Trading Margins

Net energy trading margins decreased during 2011 compared with 2010, as a result of lower margins on power positions of $16 million, partially offset by higher margins on gas positions of $12 million.

Net energy trading margins decreased during 2010 compared with 2009, as a result of lower margins on power and gas positions of $40 million, partially offset by higher trading margins related to FTRs of $22 million.

Utility Revenues

The changes in utility revenues were due to:

	2011 vs. 2010	2010 vs. 2009
Domestic:		
PPL Electric		
Revenue related to delivery (a)	$ 73	$ (3)
Revenue related to PLR energy supply (b)	(640)	(767)
Total PPL Electric	(567)	(770)
LKE (c)	2,300	493
Total Domestic	1,733	(277)
U.K.:		
PPL WW		
Price (d)	76	52
Volume (e)	(15)	7
Recovery of allowed revenues (f)	7	(17)
Foreign currency exchange rates	25	2
Other	8	(1)
Total PPL WW	101	43
WPD Midlands (g)	790	
Total U.K.	891	43
Total	$ 2,624	$ (234)

(a) The increase in 2011 compared with 2010 is primarily due to the January 1, 2011 increase in distribution rates. See "Pennsylvania Gross Delivery Margins" for further information.
(b) These changes in revenue had a minimal impact on earnings as the cost of supplying this energy as a PLR is passed through to the customer with no additional mark-up. These revenues are offset primarily with energy purchases in "Pennsylvania Gross Delivery Margins."
(c) Amounts in each period are not comparable. 2010 includes two months of activity as LKE was acquired in November 2010.
(d) The increase in 2011 compared with 2010 is due to price increases effective April 1, 2011 and April 1, 2010. The increase in 2010 compared with 2009 is due to price increases effective April 1, 2010 and April 1, 2009.
(e) The decrease in 2011 compared with 2010 is primarily due to the downturn in the economy and weather. The increase in 2010 compared with 2009 is primarily due to weather.
(f) Primarily due to a revised estimate of network electricity line losses.
(g) There are no comparable amounts in 2010 as WPD Midlands was acquired in April 2011. 2011 includes eight months of activity as WPD Midlands' results are recorded on a one-month lag.

Other Operation and Maintenance

The changes in other operation and maintenance expenses were due to:

	2011 vs. 2010	2010 vs. 2009
Domestic:		
LKE (a)	$ 612	$ 139
Act 129 costs incurred (b)	26	54
Montana hydroelectric litigation (c)	(121)	48
Vegetation management costs (d)	(8)	13
Payroll-related costs - PPL Electric	4	18
Susquehanna nuclear plant costs (e)	27	34
Costs at Western fossil and hydroelectric plants (f)	12	(4)
Costs at Eastern fossil and hydroelectric plants (g)	23	(4)
Workforce reductions (h)		(22)
Impacts from emission allowances (i)	(15)	(16)
Uncollectible accounts (j)	21	6
Other	2	27
U.K.:		
PPL WW (k)	15	45
WPD Midlands (l) (m)	313	
	$ 911	$ 338

(a) Amounts in each period are not comparable. 2010 includes two months of activity as LKE was acquired in November 2010.
(b) Relates to costs associated with a PUC-approved energy efficiency and conservation plan. These costs are recovered in customer rates. There are currently 15 Act 129 programs which began in 2010 and continued to ramp up in 2011.
(c) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. As a result, in the first quarter of 2010, PPL Montana recorded a charge of $56 million, representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. The portion of the total charge recorded to "Other operation and maintenance" on the Statement of Income totaled $49 million. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the U.S. Supreme Court granted PPL Montana's petition. In February 2012, the U.S. Supreme Court overturned the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. As a result, PPL Montana reversed its total loss accrual of $89 million, which had been recorded prior to the U.S. Supreme Court decision, of which $75 million was credited to "Other operation and maintenance" on the Statement of Income.
(d) In 2010, PPL Electric increased its vegetation management around its 230- and 500-kV transmission lines in response to federal reliability requirements for transmission vegetation management.
(e) 2011 compared with 2010 was higher primarily due to $11 million of higher payroll-related costs, $10 million of higher outage costs and $8 million of higher costs from the refueling outage. 2010 compared with 2009 was higher primarily due to $10 million of higher payroll-related costs, $8 million of higher outage costs and $5 million of higher project costs.
(f) 2011 compared with 2010 was higher primarily due to $8 million of lower insurance proceeds. 2010 compared with 2009 was lower primarily due to $10 million of higher insurance proceeds.
(g) 2011 compared with 2010 was higher primarily due to plant outage costs of $13 million.
(h) Represents the charge related to the February 2009, announcement of workforce reductions that resulted in the elimination of certain management and staff positions.
(i) 2011 compared with 2010 was lower due to lower impairment charges of sulfur dioxide emission allowances. 2010 compared with 2009 was lower primarily due to lower impairment charges of sulfur dioxide emission allowances.
(j) 2011 compared with 2010 was higher primarily due to SMGT filing for protection under Chapter 11 of the U.S. Bankruptcy Code, $11 million of damages billed to SMGT were fully reserved.
(k) Both periods were higher due to higher pension costs resulting primarily from increased amortization of actuarial losses.
(l) 2011 includes $93 million of severance compensation, early retirement deficiency costs and outplacement services for employees separating from the WPD Midlands companies as a result of a reorganization to transition the WPD Midlands companies to the same operating structure as WPD (South West) and WPD (South Wales) and $35 million of other acquisition related costs.
(m) There are no comparable amounts in the 2010 period as WPD Midlands was acquired in April 2011. 2011 includes eight months of activity as WPD Midlands' results are recorded on a one-month lag.

Depreciation

The changes in depreciation expense were due to:

	2011 vs. 2010	2010 vs. 2009
Additions to PP&E (a)	$ 20	$ 52
LKE (b) (c)	285	49
WPD Midlands (d)	95	
U.K. foreign currency exchange rates	4	
Total	$ 404	$ 101

(a) For 2011 compared with 2010, the $20 million increase was partially due to PP&E additions as part of PPL Electric's ongoing efforts to replace aging infrastructure. For 2010 compared with 2009, $21 million of the increase was primarily due to the completion of environmental projects at Brunner Island in 2009 and 2010.
(b) For 2011 compared with 2010, $32 million of depreciation expense related to TC2, which began to dispatch in January 2011.
(c) Amounts in each period are not comparable. 2010 includes two months of activity for LKE as it was acquired in November 2010.

(d) There are no comparable amounts in 2010 for WPD Midlands as it was acquired in April 2011. 2011 includes eight months of activity for WPD Midlands, as its results are recorded on a one-month lag.

Taxes, Other Than Income

The changes in taxes, other than income were due to:

	2011 vs. 2010	2010 vs. 2009
Pennsylvania gross receipts tax (a)	$ (5)	$ (42)
Domestic property tax expense (b)	(10)	1
Domestic sales and use tax	(2)	2
Pennsylvania capital stock tax (c)	11	
LKE (d)	35	2
WPD Midlands (e)	60	
Other (f)	(1)	(5)
Total	$ 88	$ (42)

(a) The decrease in 2010 compared with 2009 was primarily due to a decrease in electricity revenue as customers chose alternative suppliers in 2010. This tax is included in "Unregulated Gross Energy Margins" and "Pennsylvania Gross Delivery Margins" above.
(b) The decrease in 2011 compared with 2010 was primarily due to the amortization of the PURTA refund. This tax is included in "Pennsylvania Gross Delivery Margins" above.
(c) The increase in 2011 compared with 2010 was due in part to the expiration of the Keystone Opportunity Zone credit in 2010 and an agreed to change in a capital stock filing position with the state.
(d) Amounts in each period are not comparable. 2010 includes two months of activity as LKE was acquired in November 2010.
(e) There are no comparable amounts in the 2010 period as WPD Midlands was acquired in April 2011. 2011 includes 8 months of activity as WPD Midlands' results are recorded on a one-month lag.
(f) The decrease in 2010 compared with 2009 primarily relates to lower WPD real estate tax expense due to reductions in tax rates.

Other Income (Expense) - net

The $35 million increase in other income (expense) - net in 2011 compared with 2010 was primarily attributable to:

- a $22 million gain on the accelerated amortization of the fair value adjustment to the debt recorded in connection with previously settled fair value hedges. The accelerated amortization was the result of the July 2011 redemption of PPL Electric's 7.125% Senior Secured Bonds due 2013;
- $29 million of net losses reclassified from AOCI into earnings in 2010 resulting from the discontinuation of interest rate swaps entered into in anticipation of a debt issuance by PPL Energy Supply;
- $7 million of increases in gains from economic foreign currency exchange contracts;
- $31 million of LKE other acquisition-related costs recorded in 2010;
- $55 million of WPD Midlands other acquisition-related costs recorded in 2011, including U.K. stamp duty tax; and
- a $57 million foreign currency loss related to the repayment of the 2011 Bridge Facility borrowing, offset by a $55 million gain on foreign currency forward contracts that hedged the repayment of such borrowings.

The $78 million decrease in other income (expense) - net in 2010 compared with 2009 was primarily attributable to:

- $29 million of net losses reclassified from AOCI into earnings in 2010 resulting from the discontinuation of interest rate swaps entered into in anticipation of a debt issuance by PPL Energy Supply;
- $31 million of LKE other acquisition-related costs recorded in 2010;
- a $29 million gain on PPL Energy Supply's tender offers to purchase up to $250 million aggregate principal amount of certain of its outstanding senior notes including net gains on related cash flow hedges that were reclassified from AOCI into earnings in 2009; and
- a $12 million increase in gains from economic foreign currency exchange contracts.

Other-Than-Temporary Impairments

Other-than-temporary impairments decreased by $15 million in 2010 compared with 2009, primarily due to stronger returns on NDT investments caused by market fluctuations within the financial markets.

Interest Expense

The changes in interest expense were due to:

	2011 vs. 2010	2010 vs. 2009
2011 Bridge Facility costs related to the acquisition of WPD Midlands (Notes 7 and 10)	$ 44	
2010 Bridge Facility costs related to the acquisition of LKE (Notes 7 and 10)	(80)	$ 80
2010 Equity Units (a)	28	31
2011 Equity Units (b)	34	
Interest expense on the March 2010 WPD (South Wales) and WPD (South West) debt issuance	11	25
Inflation adjustment on U.K. Index-linked Senior Unsecured Notes	5	23
LKE (c)	126	20
WPD Midlands (d)	154	
Hedging activities	11	15
Capitalized interest	(17)	14
Net amortization of debt discounts, premiums and issuance costs	3	13
Montana hydroelectric litigation (e)	(20)	10
Other short-term and long-term debt interest expense	11	(20)
Other	(5)	(5)
Total	$ 305	$ 206

(a) Interest related to the June 2010 issuance to support the November 2010 LKE acquisition.
(b) Interest related to the April 2011 issuance to support the April 2011 WPD Midlands acquisition.
(c) Amounts in each period are not comparable. 2010 includes two months of activity as LKE was acquired in November 2010.
(d) There are no comparable amounts in 2010 as WPD Midlands was acquired in April 2011. 2011 includes eight months of activity as WPD Midlands' results are recorded on a one-month lag. 2011 Bridge Facility costs of $23 million are included in "2011 Bridge Facility costs related to the acquisition of WPD Midlands" above.
(e) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. As a result, in the first quarter of 2010, PPL Montana recorded $7 million of interest expense on rental compensation covered by the court decision. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the U.S. Supreme Court granted PPL Montana's petition. Oral argument was held in December 2011. PPL Montana continued to accrue interest expense on the rental compensation covered by the court decision. In February 2012, the U.S. Supreme Court overturned the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. As a result, PPL Montana reversed its total loss accrual of $89 million, which had been recorded prior to the U.S. Supreme Court decision, of which $14 million was credited to "Interest Expense" on the Statement of Income .

Income Taxes

The changes in income taxes were due to:

	2011 vs. 2010	2010 vs. 2009
Higher pre-tax book income	$ 168	$ 258
State valuation allowance adjustments (a)	101	(52)
State deferred tax rate change (b)	(26)	
Federal income tax credits	(2)	(10)
Domestic manufacturing deduction (c)	11	(8)
Federal and state tax reserve adjustments (d)	99	(55)
Federal and state tax return adjustments	(14)	(25)
U.S. income tax on foreign earnings net of foreign tax credit (e)	(59)	50
U.K. Finance Act adjustments (f)	(17)	(18)
Foreign valuation allowance adjustments (g)	(68)	215
Foreign tax reserve adjustments (g)	(141)	(17)
U.K. capital loss benefit (g)	261	(215)
Health care reform	(8)	8
LKE (h)	125	27
Depreciation not normalized (a)	(14)	
WPD Midlands (i)	(2)	
Other	14	
Total	$ 428	$ 158

(a) Reflects the impact of Pennsylvania Department of Revenue interpretive guidance issued during 2011 on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. Due to the decrease in taxable income related to bonus depreciation and a decrease in projected future taxable income, PPL recorded a $43 million state deferred income tax expense related to deferred tax valuation allowances during 2011.

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

Pennsylvania H.B. 1531, enacted during 2009, increased the net operating loss limitation to 20% of taxable income for tax years beginning in 2010. During 2009, based on the projected revenue increase due to the expiration of the Pennsylvania generation rate caps in 2010, PPL recorded a $13 million state deferred income tax benefit related to the reversal of deferred tax valuation allowances for a portion of its Pennsylvania net operating losses. During 2010, PPL recorded an additional $72 million state deferred income tax benefit related to the reversal of deferred tax valuation allowances related to the future projections of taxable income over the remaining carryforward period of the net operating losses.

(b) During 2011, PPL completed the sale of certain non-core generating assets (see Note 9 to the Financial Statements for additional information). Due to changes in state apportionment resulting in the reduction in the future estimated state tax rate, PPL recorded a deferred tax benefit related to its December 31, 2011 state deferred tax liabilities.
(c) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation eliminated the income tax benefit related to the domestic manufacturing deduction in 2011.
(d) In 1997, the U.K. imposed a Windfall Profits Tax on privatized utilities, including WPD. In September 2010, the U.S. Tax Court ruled in PPL's favor in a dispute with the IRS, concluding that the U.K. Windfall Profits Tax is a creditable tax for U.S. tax purposes. As a result and with the finalization of other issues, PPL recorded a $42 million tax benefit in 2010. In January 2011, the IRS appealed the U.S. Tax Court's decision to the U.S. Court of Appeals for the Third Circuit. In December 2011, the Third Circuit issued its opinion reversing the Tax Court's decision and holding that the Windfall Profits Tax is not a creditable tax. As a result of the Third Circuit's adverse determination, PPL recorded a $39 million expense in 2011. On February 27, 2012, PPL filed with the Third Circuit a petition for rehearing of its opinion on this matter.

In 2010, the U.S. Tax Court ruled in PPL's favor in a dispute with the IRS, concluding that street lighting assets are depreciable for tax purposes over seven years. As a result, PPL recorded a $7 million tax benefit to federal and state income tax reserves and related deferred income taxes during 2010.

During 2011, 2010 and 2009 PPL recorded a $6 million, $7 million and $6 million tax benefit to federal and state income tax reserves related to stranded cost securitization.
(e) During 2011, PPL recorded a $28 million federal income tax benefit related to U.K. pension contributions.

During 2010, PPL recorded additional U.S. income tax expense resulting from increased taxable dividends and certain restructuring of U.K. entities.
(f) The U.K.'s Finance Act of 2011, enacted during 2011, included reductions in the U.K. statutory income tax rate. The statutory income tax rate was reduced from 27% to 26% retroactive to April 1, 2011 and will be reduced from 26% to 25 % effective April 1, 2012. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit of $69 million in 2011. WPD Midlands' portion of the deferred tax benefit is $34 million.

The U.K.'s Finance Act of 2010, enacted during 2010, included a reduction in the U.K. statutory income tax rate. Effective April 1, 2011, the statutory income tax rate was reduced from 28% to 27%. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit of $18 million during 2010.
(g) During 2011, WPD reached an agreement with the HM Revenue & Customs, the U.K. tax authority, related to the amount of the capital losses that resulted from prior years' restructuring in the U.K. and recorded a $147 million foreign tax benefit for the reversal of tax reserves related to the capital losses. Additionally, WPD recorded a $147 million valuation allowance for the amount of capital losses that, more likely than not, will not be realized.

During 2010, PPL recorded a $261 million foreign tax benefit in conjunction with losses resulting from restructuring in the U.K. A portion of these losses offset tax on a deferred gain from a prior year sale of WPD's supply business. WPD recorded a $215 million valuation allowance for the amount of capital losses that, more likely than not, will not be realized.

During 2009, PPL recorded a $46 million foreign tax benefit and a related $46 million tax reserve related to losses resulting from restructuring in the U.K. Additionally, PPL recorded a $29 million foreign tax benefit related to the resolution of a tax dispute and foreign currency exchange losses.
(h) Amounts in each period are not comparable. 2010 includes two months of activity as LKE was acquired in November 2010.
(i) There are no comparable amounts in 2010 as WPD Midlands was acquired in April 2011. 2011 includes eight months of activity as WPD Midlands' results are recorded on a one-month lag.

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

Discontinued Operations

Income (Loss) from Discontinued Operations (net of income taxes) increased by $19 million in 2011 compared with 2010 and decreased by $10 million in 2010 compared with 2009. Both periods were impacted by after-tax impairment charges recorded in 2010 totaling $62 million related to assets associated with certain non-core generation facilities sold in 2011 that were written down to their estimated fair value (less cost to sell). The impacts of these charges were offset by the net results of certain other discontinued operations. See Note 9 to the Financial Statements for additional information.

Financial Condition

Liquidity and Capital Resources

PPL expects to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents and its credit facilities. Additionally, subject to market conditions, PPL currently plans to access capital markets in 2012.

PPL's cash flows from operations and access to cost-effective bank and capital markets are subject to risks and uncertainties including, but not limited to:

- changes in electricity, fuel and other commodity prices;
- operational and credit risks associated with selling and marketing products in the wholesale power markets;
- potential ineffectiveness of the trading, marketing and risk management policy and programs used to mitigate PPL's risk exposure to adverse changes in electricity and fuel prices, interest rates, foreign currency exchange rates and counterparty credit;

- unusual or extreme weather that may damage PPL's transmission and distribution facilities or affect energy sales to customers;
- reliance on transmission and distribution facilities that PPL does not own or control to deliver its electricity and natural gas;
- unavailability of generating units (due to unscheduled or longer-than-anticipated generation outages, weather and natural disasters) and the resulting loss of revenues and additional costs of replacement electricity;
- the ability to recover and the timeliness and adequacy of recovery of costs associated with regulated utility businesses;
- costs of compliance with existing and new environmental laws and with new security and safety requirements for nuclear facilities;
- any adverse outcome of legal proceedings and investigations with respect to PPL's current and past business activities;
- deterioration in the financial markets that could make obtaining new sources of bank and capital markets funding more difficult and more costly; and
- a downgrade in PPL's or its rated subsidiaries' credit ratings that could adversely affect their ability to access capital and increase the cost of credit facilities and any new debt.

See "Item 1A. Risk Factors" for further discussion of risks and uncertainties affecting PPL's cash flows.

At December 31, PPL had the following:

	2011	2010	2009
Cash and cash equivalents	$ 1,202	$ 925	$ 801
Short-term investments (a)	16	163	
	$ 1,218	$ 1,088	$ 801
Short-term debt	$ 578	$ 694	$ 639

(a) 2010 amount represents tax-exempt bonds issued by Louisville/Jefferson County, Kentucky on behalf of LG&E that were subsequently purchased by LG&E. Such bonds were remarketed to unaffiliated investors in January 2011. See Note 7 to the Financial Statements for further discussion.

At December 31, 2011, $411 million of cash and cash equivalents and $16 million of short-term investments were denominated in GBP. If these amounts would be remitted as dividends, PPL may be subject to additional U.S. taxes, net of allowable foreign tax credits. Historically, dividends paid by foreign subsidiaries have been distributions of the current year's earnings. See Note 5 to the Financial Statements for additional information on undistributed earnings of WPD.

The changes in PPL's cash and cash equivalents position resulted from:

	2011	2010	2009
Net cash provided by operating activities	$ 2,507	$ 2,033	$ 1,852
Net cash provided by (used in) investing activities	(7,952)	(8,229)	(880)
Net cash provided by (used in) financing activities	5,767	6,307	(1,271)
Effect of exchange rates on cash and cash equivalents	(45)	13	
Net Increase (Decrease) in Cash and Cash Equivalents	$ 277	$ 124	$ (299)

Operating Activities

Net cash provided by operating activities increased by 23%, or $474 million, in 2011 compared with 2010. The increase was the net effect of:

- operating cash provided by LKE, $743 million, and WPD Midlands, $234 million;
- cash from components of working capital, $435 million, primarily related to changes in prepaid income and gross receipts taxes; partially offset by
- reduction in cash from counter party collateral, $172 million:
- lower gross energy margins, $240 million after-tax:
- proceeds from monetizing certain full-requirement sales contracts in 2010, $249 million:
- higher interest payments of $44 million; and
- increases in other operating outflows of $233 million (including $90 million of higher operation and maintenance expenses and defined benefits funding).

Net cash provided by operating activities increased by 10%, or $181 million in 2010 compared with 2009. The expiration of the long-term power purchase agreements between PPL Electric and PPL EnergyPlus at the end of 2009 enabled PPL

EnergyPlus to sell power at higher market prices and had a positive impact on net income, and specifically on "unregulated gross energy margins" which increased over $600 million, after-tax, in 2010 compared with 2009, and therefore, was the primary driver to the above increase. The positive impact of additional earnings was partially offset by a reduction in the amount of counterparty collateral received and by additional defined benefit plan contributions.

A significant portion of PPL's Supply segment operating cash flows is derived from its competitive baseload generation business activities. PPL employs a formal hedging program for its baseload generation fleet, the primary objective of which is to provide a reasonable level of near-term cash flow and earnings certainty while preserving upside potential of power price increases over the medium term. See Note 19 to the Financial Statements for further discussion. Despite PPL's hedging practices, future cash flows from operating activities from its Supply segment are influenced by commodity prices and therefore, will fluctuate from period to period.

PPL's contracts for the sale and purchase of electricity and fuel often require cash collateral or other credit enhancements, or reductions or terminations of a portion of the entire contract through cash settlement, in the event of a downgrade of PPL's or its subsidiaries' credit ratings or adverse changes in market prices. For example, in addition to limiting its trading ability, if PPL's or its subsidiaries' ratings were lowered to below "investment grade" and there was a 10% adverse movement in energy prices, PPL estimates that, based on its December 31, 2011 positions, it would have had to post additional collateral of approximately $435 million with respect to electricity and fuel contracts. PPL has in place risk management programs that are designed to monitor and manage its exposure to volatility of cash flows related to changes in energy and fuel prices, interest rates, foreign currency exchange rates, counterparty credit quality and the operating performance of its generating units.

Investing Activities

The primary use of cash in investing activities in 2011 was for the acquisition of WPD Midlands. In 2010, the primary use of cash in investing activities was for the acquisition of LKE. In 2009, the primary use of cash in investing activities was for capital expenditures. See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2012 through 2016.

Net cash used in investing activities was $7.9 billion in 2011 compared with $8.2 billion in 2010. The 2011 amount includes the use of $5.8 billion of cash for the acquisition of WPD Midlands, while 2010 includes $6.8 billion for the acquisition of LKE. See Note 10 to the Financial Statements for additional information regarding the acquisitions. Excluding the impact of the acquisitions, net cash used in investing activities increased by $772 million in 2011 compared with 2010. This increase reflects $890 million of higher capital expenditures and a $228 million net change in restricted cash, partially offset by $219 million of additional proceeds from the sale of certain businesses or facilities and $163 million of proceeds from the sale of investments, other than securities in the nuclear plant decommissioning trust funds. PPL received proceeds of $381 million in 2011 from the sale of certain non-core generation facilities compared with proceeds of $162 million in 2010 from the sale of the Long Island generation business and certain Maine hydroelectric generation facilities. See Note 9 to the Financial Statements for additional information on the sale of these businesses or facilities.

Net cash used in investing activities was $8.2 billion in 2010 compared with $880 million in 2009. The 2010 amount includes the use of $6.8 billion of cash for the acquisition of LKE. See Note 10 to the Financial Statements for additional information regarding this acquisition. Excluding the impact of the acquisition, net cash used in investing activities increased by $537 million in 2010 compared with 2009. This increase reflects $372 million of higher capital expenditures, $133 million net change in restricted cash and $154 million of lower proceeds from the sale of investments, other than securities in the nuclear plant decommissioning trust funds, partially offset by $81 million of additional proceeds from the sale of certain businesses or facilities. PPL received proceeds of $162 million in 2010 for the sale of the Long Island generation business and certain Maine hydroelectric generation facilities compared with proceeds of $81 million in 2009 from the sale of the majority of its Maine hydroelectric generation businesses. See Note 9 to the Financial Statements for additional information on the sale of these businesses or facilities.

Financing Activities

Net cash provided by financing activities was $5.8 billion in 2011 compared with $6.3 billion in 2010, primarily as a result of the issuances of long-term debt and equity related to the acquisition of WPD Midlands in 2011 and the acquisition of LKE in 2010. The change from 2011 to 2010 primarily reflects increased issuances of long-term debt and equity related to the acquisition of WPD Midlands in 2011.

Net cash provided by financing activities was $6.3 billion in 2010 compared with $1.3 billion of cash used in financing activities in 2009. The change from 2009 to 2010 primarily reflects increased issuances of long-term debt and equity related to the acquisition of LKE in 2010 as well as fewer retirements of long-term debt in 2010.

In 2011, cash provided by financing activities primarily consisted of net debt issuances of $4.4 billion and $2.3 billion of net proceeds from the issuance of common stock, partially offset by common stock dividends paid of $746 million and debt issuance and credit facility costs paid of $102 million.

In 2010, cash provided by financing activities primarily consisted of net debt issuances of $4.7 billion and $2.4 billion of net proceeds from the issuance of common stock, partially offset by common stock dividends paid of $566 million and debt issuance and credit facility costs paid of $175 million.

In 2009, cash used in financing activities primarily consisted of net debt retirements of $770 million and common stock dividends paid of $517 million, partially offset by $60 million of common stock sale proceeds.

See "Forecasted Sources of Cash" for a discussion of PPL's plans to issue debt and equity securities, as well as a discussion of credit facility capacity available to PPL. Also see "Forecasted Uses of Cash" for a discussion of plans to pay dividends on common and preferred securities in the future, as well as maturities of long-term debt.

Long-term Debt and Equity Securities

PPL's long-term debt and equity securities activity through December 31, 2011 was:

	Debt		Equity
	Issuances (a)	Retirements	Issuances
PPL Common Stock			$ 2,328
PPL Capital Funding Junior Subordinated Notes	$ 978		
PPL Energy Supply Senior Unsecured Notes (b)	500	$ (750)	
PPL Electric First Mortgage Bonds (c)	645	(458)	
LKE Senior Unsecured Notes	250		
LG&E and KU Capital LLC Medium Term Notes (d)		(2)	
PPL WEM Senior Unsecured Notes	959		
WPD (West Midlands) Senior Unsecured Notes	1,282		
WPD (East Midlands) Senior Unsecured Notes	967		
WPD (East Midlands) Index-linked Notes	164		
Total Cash Flow Impact	$ 5,745	$ (1,210)	$ 2,328
Assumed through consolidation - WPD Midlands acquisition:			
WPD (East Midlands) Senior Unsecured Notes (e)	$ 418		
WPD (West Midlands) Senior Unsecured Notes (e)	412		
Total Assumed	$ 830		
Non-cash Exchanges (f):			
LKE Senior Unsecured Notes	$ 875	$ (875)	
LG&E First Mortgage Bonds	535	(535)	
KU First Mortgage Bonds	1,500	(1,500)	
Total Exchanged	$ 2,910	$ (2,910)	
Net Increase	$ 5,365		$ 2,328

(a) Issuances are net of pricing discounts, where applicable and exclude the impact of debt issuance costs.
(b) Senior unsecured notes of $250 million were redeemed at par prior to their 2046 maturity date and the remaining $500 million were retired upon maturity.
(c) Retirement reflects amount paid to redeem $400 million aggregate principal amount of first mortgage bonds prior to their 2013 maturity date.
(d) Notes were retired upon maturity.
(e) Reflects fair value adjustments resulting from the preliminary purchase price allocation. The principal amount of each issuance is £250 million, which equated to approximately $400 million at the time of closing.
(f) In April 2011, LKE, LG&E and KU each filed a 2011 Registration Statement with the SEC related to offers to exchange securities issued in November 2010 in transactions not registered under the Securities Act of 1933 with similar but registered securities. The 2011 Registration Statements became effective in June 2011 and the exchanges were completed in July 2011, with substantially all securities being exchanged.

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

Forecasted Sources of Cash

PPL expects to continue to have sufficient sources of cash available in the near term, including various credit facilities, a commercial paper program and operating leases. PPL and its subsidiaries currently plan to incur, subject to market conditions, up to $300 million of long-term indebtedness in 2012, the proceeds of which will be used for general corporate purposes. Additionally, PPL's cash flows will include a full year of WPD Midlands' cash flows in 2012 and forward.

Credit Facilities

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

	Committed Capacity	Borrowed	Letters of Credit Issued and Commercial Paper Backstop	Unused Capacity
PPL Energy Supply Credit Facilities (a)	$ 3,200		$ 630	$ 2,570
PPL Electric Credit Facilities (b)	350		1	349
LG&E Credit Facility (c)	400			400
KU Credit Facilities (c)(d)	598		198	400
Total Domestic Credit Facilities (e)	$ 4,548		$ 829	$ 3,719
PPL WW Credit Facility	£ 150	£ 111	n/a	£ 39
WPD (South West) Credit Facility (f)	210		n/a	210
WPD (East Midlands) Credit Facility (g)	300		£ 70	230
WPD (West Midlands) Credit Facility (g)	300		71	229
Total WPD Credit Facilities (h)	£ 960	£ 111	£ 141	£ 708

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

PPL Energy Supply's Syndicated Credit Facility contains a financial covenant requiring PPL Energy Supply's debt to total capitalization not to exceed 65%, as calculated in accordance with the facility, and other customary covenants.

(b) Committed capacity includes a $150 million credit facility related to an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary pledges these assets to secure loans of up to an aggregate of $150 million from a commercial paper conduit sponsored by a financial institution. At December 31, 2011, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under the facility was limited to $103 million. In July 2011, PPL Electric and the subsidiary extended the expiration date of the credit agreement related to the asset-backed commercial paper program to July 2012.

PPL Electric's Syndicated Credit Facility contains a financial covenant requiring PPL Electric's debt to total capitalization not to exceed 70%, as calculated in accordance with the credit facility, and other customary covenants.

(c) In June 2011, LG&E and KU each amended its respective Syndicated Credit Facility such that the fees and the spread to benchmark interest rates for borrowings depend upon the respective company's senior secured long-term debt rating rather than the senior unsecured debt rating. LG&E and KU's Syndicated Credit Facilities each contain a financial covenant requiring LG&E and KU's debt to capitalization not to exceed 70%, as calculated in accordance with the facilities, and other customary covenants.

(d) In April 2011, KU entered into a new $198 million letter of credit facility that has been used to issue letters of credit to support outstanding tax exempt bonds. The facility contains a financial covenant requiring KU's debt to total capitalization not to exceed 70%, as calculated in accordance with the credit facility. KU pays customary commitment and letter of credit fees under the new facility. The facility matures in April 2014. In August 2011, KU amended its letter of credit facility such that the fees depend upon KU's senior secured long-term debt rating rather than the senior unsecured debt rating.

(e) In October 2011, PPL Energy Supply, PPL Electric, LG&E and KU each amended its respective Syndicated Credit Facility. The amendments included extending the expiration dates from December 2014 to October 2016. Under these facilities, PPL Energy Supply, PPL Electric, LG&E and KU each continue to have the ability to make cash borrowings and to request the lenders to issue letters of credit.

The commitments under PPL's domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 9% of the total committed capacity.

(f) In January 2012, WPD (South West) entered into a new £245 million syndicated credit facility to replace its existing £210 million syndicated credit facility. Under the new facility, WPD (South West) has the ability to make cash borrowings but cannot request the lenders to issue letters of credit. WPD (South West) pays customary commitment fees under this facility, and borrowings bear interest at LIBOR-based rates plus a margin. The facility contains financial covenants that require WPD (South West) to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, in each case calculated in accordance with the credit facility.

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

(h) At December 31, 2011, the unused capacity of WPD's committed credit facilities was approximately $1.1 billion. The commitments under WPD's credit facilities are provided by a diverse bank group with no one bank providing more than 17% of the total committed capacity.

In addition to the financial covenants noted in the table above, the credit agreements governing the above credit facilities contain various other covenants. Failure to comply with the covenants after applicable grace periods could result in acceleration of repayment of borrowings and/or termination of the agreements. PPL monitors compliance with the covenants on a regular basis. At December 31, 2011, PPL was in compliance with these covenants. At this time, PPL believes that these covenants and other borrowing conditions will not limit access to these funding sources.

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

Commercial Paper

In October 2011, PPL Energy Supply re-activated its $500 million commercial paper program to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At December 31, 2011, PPL Energy Supply had $400 million of commercial paper outstanding at a weighted-average interest rate of approximately 0.53%.

PPL Electric maintains a commercial paper program for up to $200 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are currently supported by PPL Electric's Syndicated Credit Facility, which expires in October 2016, based on available capacity.

PPL Electric did not issue any commercial paper during 2011. Based on its current cash position and anticipated cash flows, PPL Electric currently does not plan to issue any commercial paper during 2012, but it may do so from time to time, subject to market conditions, to facilitate short-term cash flow needs.

In February 2012, LG&E and KU each established a commercial paper program for up to $250 million to provide an additional financing source to fund their short-term liquidity needs. Commercial paper issuances will be supported by LG&E and KU's Syndicated Credit Facilities.

2011 Bridge Facility

In March 2011, in connection with entering into the agreement to acquire WPD Midlands, PPL entered into a 364-day unsecured bridge financing of up to £3.6 billion solely to (i) fund the acquisition and (ii) pay certain fees and expenses in connection with the acquisition. On April 1, 2011, concurrent with the closing of the WPD Midlands acquisition, PPL Capital Funding borrowed an aggregate of £1.75 billion and PPL WEM borrowed £1.85 billion under the 2011 Bridge Facility. The borrowings bore interest at approximately 2.62%. See Note 10 to the Financial Statements for additional information on the acquisition.

In accordance with the terms of the 2011 Bridge Facility, PPL Capital Funding's borrowings of £1.75 billion were repaid with approximately $2.8 billion of proceeds received from PPL's issuance of common stock and 2011 Equity Units in April 2011, as discussed in "Long-term Debt and Equity Securities" below. Also in April 2011, PPL WEM repaid £650 million of its 2011 Bridge Facility borrowing. Such repayment was funded primarily with proceeds received from PPL WEM's issuance of senior notes, which is also discussed below. In May 2011, PPL WEM repaid the remaining £1.2 billion of borrowings outstanding under the 2011 Bridge Facility, primarily with the proceeds from senior notes issued by WPD (East Midlands) and WPD (West Midlands), also discussed below.

In anticipation of the repayment of a portion of the GBP-denominated borrowings under the 2011 Bridge Facility with U.S. dollar-denominated proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of U.S. dollar-denominated senior notes, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. See Note 19 to the Financial Statements for further discussion.

Operating Leases

PPL and its subsidiaries also have available funding sources that are provided through operating leases. PPL's subsidiaries lease office space, land, buildings and certain equipment. These leasing structures provide PPL additional operating and financing flexibility. The operating leases contain covenants that are typical for these agreements, such as maintaining insurance, maintaining corporate existence and timely payment of rent and other fees.

PPL, through its subsidiary PPL Montana, leases a 50% interest in Colstrip Units 1 and 2 and a 30% interest in Unit 3, under four 36-year, non-cancelable operating leases. These operating leases are not recorded on PPL's Balance Sheets. The leases place certain restrictions on PPL Montana's ability to incur additional debt, sell assets and declare dividends. At this time, PPL believes that these restrictions will not limit access to these funding sources or cause acceleration or termination of the leases. See Note 7 to the Financial Statements for a discussion of other dividend restrictions related to PPL subsidiaries.

See Note 11 to the Financial Statements for further discussion of the operating leases.

Long-term Debt and Equity Securities

PPL and its subsidiaries currently plan to incur, subject to market conditions, up to $300 million of long-term indebtedness in 2012, the proceeds of which will be used for general corporate purposes.

PPL currently plans to issue new shares of common stock in 2012 in an aggregate amount up to $350 million under its DRIP and various employee stock-based compensation and other plans.

Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, PPL currently expects to incur future cash outflows for capital expenditures, various contractual obligations, payment of dividends on its common and preferred securities and possibly the purchase or redemption of a portion of debt securities.

Capital Expenditures

The table below shows PPL's current capital expenditure projections for the years 2012 through 2016.

	Projected				
	2012	**2013**	**2014**	**2015**	**2016**
Construction expenditures (a) (b)					
Generating facilities (c)	$ 803	$ 636	$ 607	$ 530	$ 402
Distribution facilities	1,632	1,689	1,658	1,666	1,678
Transmission facilities (d)	417	624	591	474	373
Environmental	695	963	918	730	122
Other	133	147	121	128	120
Total Construction Expenditures	3,680	4,059	3,895	3,528	2,695
Nuclear fuel (e)	159	172	170	173	174
Total Capital Expenditures	$ 3,839	$ 4,231	$ 4,065	$ 3,701	$ 2,869

(a) Construction expenditures include capitalized interest and AFUDC, which are expected to be approximately $209 million for the years 2012 through 2016.
(b) Includes expenditures for certain intangible assets.
(c) Includes approximately $700 million of currently estimable costs related to LKE's replacement of generation units due to EPA regulations not recoverable through the ECR mechanism. LKE expects to recover these costs over a period equivalent to the related depreciable lives of the assets through future rate proceedings.
(d) Includes approximately $100 million of currently estimable transmission costs related to LKE's replacement of generation units. LKE expects to recover these costs over a period equivalent to the related depreciable lives of the assets through future rate proceedings.
(e) Nuclear fuel expenditures include capitalized interest, which is expected to be approximately $25 million for the years 2012 through 2016.

PPL's capital expenditure projections for the years 2012 through 2016 total approximately $18.7 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. For the years presented, this table includes projected costs related to the planned 1,326 MW of incremental capacity increases for both PPL Energy Supply and LKE, PPL Electric's asset optimization program focused on the replacement of aging transmission and distribution assets and the PJM-approved regional transmission line expansion project. This table also includes LKE's environmental projects related to new and anticipated EPA compliance standards (actual costs may be significantly lower or higher depending on the final requirements; certain environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism). See Notes 6 and 8 to the Financial Statements for information on LG&E's and KU's ECR plans and the PJM-approved regional transmission line expansion project and the other significant development projects.

PPL plans to fund its capital expenditures in 2012 with cash on hand, cash from operations and proceeds from the issuance of common stock and debt securities.

Contractual Obligations

PPL has assumed various financial obligations and commitments in the ordinary course of conducting its business. At December 31, 2011, the estimated contractual cash obligations of PPL were:

	Total	2012	2013 - 2014	2015 - 2016	After 2016
Long-term Debt (a)	$ 17,982		$ 1,047	$ 2,110	$ 14,825
Interest on Long-term Debt (b)	14,731	$ 863	1,721	1,650	10,497
Operating Leases (c)	789	125	250	162	252
Purchase Obligations (d)	8,703	2,307	2,791	1,533	2,072
Other Long-term Liabilities Reflected on the Balance Sheet under GAAP (e) (f)	842	412	230	58	142
Total Contractual Cash Obligations	$ 43,047	$ 3,707	$ 6,039	$ 5,513	$ 27,788

(a) Reflects principal maturities only based on stated maturity dates, except for PPL Energy Supply's 5.70% REset Put Securities (REPS). See Note 7 to the Financial Statements for a discussion of the remarketing feature related to the REPS, as well as discussion of variable-rate remarketable bonds issued on behalf of PPL Energy Supply, LG&E and KU. PPL does not have any significant capital lease obligations.

(b) Assumes interest payments through stated maturity, except for the REPS, for which interest is reflected to the put date. The payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated and payments denominated in British pounds sterling have been translated to U.S. dollars at a current foreign currency exchange rate.

(c) See Note 11 to the Financial Statements for additional information.

(d) The amounts include agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Primarily includes PPL's purchase obligations of electricity, coal, nuclear fuel and limestone as well as certain construction expenditures, which are also included in the Capital Expenditures table presented above. Financial swaps and open purchase orders that are provided on demand with no firm commitment are excluded from the amounts presented. In prior years, PPL included certain energy purchase obligations based on forecasted amounts to be purchased. The amounts presented herein are based on actual contract terms.

(e) The amounts include WPD's contractual deficit pension funding requirements arising from an actuarial valuation performed in March 2010. The U.K. electricity regulator currently allows a recovery of a substantial portion of the contributions relating to the plan deficit; however, WPD cannot be certain that this will continue beyond the current review period, which extends to March 31, 2015. The amounts also include contributions made or committed to be made for 2012 for PPL's and LKE's U.S. pension plans. See Note 13 to the Financial Statements for a discussion of expected contributions.

Also included in the amounts are contract adjustment payments related to the Purchase Contract component of the Equity Units. See Note 7 to the Financial Statements for additional information on the Equity Units.

(f) At December 31, 2011, total unrecognized tax benefits of $145 million were excluded from this table as PPL cannot reasonably estimate the amount and period of future payments. See Note 5 to the Financial Statements for additional information.

Dividends

PPL views dividends as an integral component of shareowner return and expects to continue to pay dividends in amounts that are within the context of maintaining a capitalization structure that supports investment grade credit ratings. In 2011, PPL declared the annualized dividend rate on its common stock at $1.40 per share. In February 2012, PPL declared an increase to its annualized dividend rate on its common stock to $1.44 per share. Future dividends will be declared at the discretion of the Board of Directors and will depend upon future earnings, cash flows, financial and legal requirements and other relevant factors at the time. As discussed in Note 7 to the Financial Statements, subject to certain exceptions, PPL may not declare or pay any cash dividend on its common stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067, its 4.625% Junior Subordinated Notes due 2018, or its 4.32% Junior Subordinated Notes due 2019 or until deferred contract adjustment payments on PPL's Purchase Contracts have been paid. No such deferrals have occurred or are currently anticipated.

PPL Electric expects to continue to pay quarterly dividends on its outstanding preference securities, if and as declared by its Board of Directors.

See Note 7 to the Financial Statements for other restrictions related to distributions on capital interests for PPL subsidiaries.

Purchase or Redemption of Debt Securities

PPL will continue to evaluate its outstanding debt securities and may decide to purchase or redeem these securities depending upon prevailing market conditions and available cash.

Rating Agency Decisions

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

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

As a result of the passage of the Dodd-Frank Act PPL is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to PPL's ratings, but without stating what ratings have been assigned to PPL or its subsidiaries, or their securities. The ratings assigned by the rating agencies to PPL and its subsidiaries and their respective securities may be found, without charge, on each of the respective ratings agencies' websites, which ratings together with all other information contained on such rating agency websites is hereby explicitly not incorporated by reference in this report.

The rating agencies took the following actions related to PPL and its subsidiaries in 2011.

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

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

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

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

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

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

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

S&P:
- lowered the issuer and senior unsecured debt ratings of WPD (East Midlands) and WPD (West Midlands);
- assigned issuer ratings to PPL WEM;
- raised the issuer rating of PPL WW;
- revised the outlook for PPL and all of its rated subsidiaries;
- raised the short-term ratings of LG&E, KU, WPD (East Midlands), WPD (West Midlands), PPL WEM, PPL WW, WPD (South West), WPD (South Wales) and PPL Electric; and
- affirmed all of the long-term ratings for PPL and its rated subsidiaries.

In May 2011, S&P downgraded the long-term rating of four series of pollution control bonds issued on behalf of KU by one notch in connection with the substitution of the letters of credit enhancing these four bonds.

Also in May 2011, Fitch affirmed its rating and maintained its outlook for PPL Montana's Pass Through Certificates due 2020.

In July 2011, S&P upgraded the senior secured rating for PPL Electric's first mortgage bonds following the execution of a supplemental indenture that provided for prospective amendments to PPL Electric's 2001 Mortgage Indenture, as discussed in "Long-term Debt and Equity Securities" above.

In September 2011, Moody's affirmed the following ratings:
- the issuer ratings for PPL, LG&E, and KU;
- the senior unsecured ratings for PPL Energy Supply and PPL Capital Funding; and
- all of the ratings for LKE.

Also in September 2011, S&P assigned a short-term rating to PPL Energy Supply's commercial paper program.

In October 2011, Moody's and Fitch also assigned a short-term rating to PPL Energy Supply's commercial paper program in support of PPL Energy Supply's re-opening of the program.

In October 2011, Fitch affirmed all of the ratings for PPL WW, WPD (South West), and WPD (South Wales).

In November 2011, Fitch affirmed its rating and revised its outlook to negative from stable for PPL Montana's Pass Through Certificates due 2020.

In December 2011, Fitch affirmed the Issuer Default Ratings and individual security ratings of PPL Corp. and each of its domestic subsidiaries.

In January 2012, S&P affirmed its rating and revised its outlook to stable from positive for PPL Montana's Pass Through Certificates due 2020.

Ratings Triggers

As discussed in Note 7 to the Financial Statements, certain of WPD's senior unsecured notes may be put by the holders back to the issuer for redemption if the long-term credit ratings assigned to the notes by Moody's, S&P or Fitch are withdrawn by any of the rating agencies or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or a material adverse change to, the distribution license under which WPD (East Midlands), WPD (South West), WPD (South Wales) and WPD (West Midlands) operate. These notes totaled £3.3 billion (approximately $5.1 billion) at December 31, 2011.

PPL and PPL Energy Supply have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements, and interest rate and foreign currency instruments, which contain provisions requiring PPL and PPL Energy Supply to post additional collateral, or permit the counterparty to terminate the contract, if PPL's or PPL Energy Supply's credit rating were to fall below investment grade. See Note 19 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at December 31, 2011. At December 31, 2011, if PPL's and PPL Energy Supply's credit ratings had been below investment grade, PPL would have been required to prepay or post an additional $475 million of collateral to counterparties for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations and interest rate and foreign currency contracts.

Guarantees for Subsidiaries

PPL guarantees certain consolidated affiliate financing arrangements that enable certain transactions. Some of the guarantees contain financial and other covenants that, if not met, would limit or restrict the consolidated affiliates' access to funds under these financing arrangements, require early maturity of such arrangements or limit the consolidated affiliates' ability to enter into certain transactions. At this time, PPL believes that these covenants will not limit access to relevant funding sources. See Note 15 to the Financial Statements for additional information about guarantees.

Off-Balance Sheet Arrangements

PPL has entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 15 to the Financial Statements for a discussion of these agreements.

Risk Management - Energy Marketing & Trading and Other

Market Risk

See Notes 1, 18, and 19 to the Financial Statements for information about PPL's risk management objectives, valuation techniques and accounting designations.

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

Commodity Price Risk (Non-trading)

PPL segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL's competitive generation assets and full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. The net fair value of economic positions at December 31, 2011 and 2010 was a net liability of $63 million and $391 million. See Note 19 to the Financial Statements for additional information on economic activity.

To hedge the impact of market price volatility on PPL's energy-related assets, liabilities and other contractual arrangements, PPL both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL's non-trading commodity derivative contracts mature at various times through 2019.

The following table sets forth the changes in net fair value of PPL's non-trading commodity derivative contracts. See Notes 18 and 19 to the Financial Statements for additional information.

	Gains (Losses)	
	2011	2010
Fair value of contracts outstanding at the beginning of the period	$ 947	$ 1,280
Contracts realized or otherwise settled during the period	(517)	(478)
Fair value of new contracts entered into during the period (a)	13	(5)
Changes in fair value attributable to changes in valuation techniques (b)		(23)
Fair value of LKE derivative contracts at the acquisition date		(24)
Other changes in fair value	639	197
Fair value of contracts outstanding at the end of the period	$ 1,082	$ 947

(a) Represents the fair value of contracts at the end of the quarter of their inception.
(b) In June 2010, PPL Energy Supply received market bids for certain full-requirement sales contracts that were monetized in early July. See Note 19 to the Financial Statements for additional information. At June 30, 2010, these contracts were valued based on the bids received (the market approach). In prior periods, the fair value of these contracts was measured using the income approach.

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

	Net Asset (Liability)				
Source of Fair Value	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Prices quoted in active markets for identical instruments	$ 1				$ 1
Prices based on significant other observable inputs	713	$ 342	$ (1)	$ 15	1,069
Prices based on significant unobservable inputs	13	(3)	2		12
Fair value of contracts outstanding at the end of the period	$ 727	$ 339	$ 1	$ 15	$ 1,082

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

Commodity Price Risk (Trading)

PPL's trading contracts mature at various times through 2015. The following table sets forth changes in the net fair value of PPL's trading commodity derivative contracts. See Notes 18 and 19 to the Financial Statements for additional information.

	Gains (Losses)	
	2011	2010
Fair value of contracts outstanding at the beginning of the period	$ 4	$ (6)
Contracts realized or otherwise settled during the period	(14)	(12)
Fair value of new contracts entered into during the period	10	39
Other changes in fair value	(4)	(17)
Fair value of contracts outstanding at the end of the period	$ (4)	$ 4

PPL will reverse unrealized losses of approximately $2 million over the next three months as the transactions are realized.

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

	Net Asset (Liability)				
Source of Fair Value	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Prices quoted in active markets for identical instruments	$ 1				$ 1
Prices based on significant other observable inputs	(18)	$ 11	$ 1		(6)
Prices based on significant unobservable inputs	1				1
Fair value of contracts outstanding at the end of the period	$ (16)	$ 11	$ 1		$ (4)

VaR Models

PPL utilizes a VaR model to measure commodity price risk in unregulated gross energy margins for its non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. PPL calculates VaR using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's conservative hedging program, PPL's non-trading VaR exposure is expected to be limited in the short term. At December 31, 2011 and December 31, 2010, the VaR for PPL's portfolios using end-of-month results for the period was as follows.

	Trading VaR		Non-Trading VaR	
	2011	2010	2011	2010
95% Confidence Level, Five-Day Holding Period				
Period End	$ 1	$ 1	$ 6	$ 5
Average for the Period	3	4	5	7
High	6	9	7	12
Low	1	1	4	4

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

Interest Rate Risk

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

At December 31, 2011 and 2010, PPL's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL is also exposed to changes in the fair value of its domestic and international debt portfolios. PPL estimated that a 10% decrease in interest rates at December 31, 2011 would increase the fair value of its debt portfolio by $635 million, compared with $420 million at December 31, 2010.

PPL had the following interest rate hedges outstanding at:

	December 31, 2011			December 31, 2010		
	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)
Cash flow hedges						
Interest rate swaps (c)	$ 150	$ (3)	$ (3)	$ 500	$ (19)	$ (28)
Cross-currency swaps (d)	1,262	22	(187)	302	35	(18)
Fair value hedges						
Interest rate swaps (e)	99	4		349	20	(3)
Economic hedges						
Interest rate swaps (f)	179	(60)	(4)	179	(34)	(7)

(a) Includes accrued interest, if applicable.
(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
(c) PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any changes in the fair value of such cash flow hedges are recorded in equity. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at December 31, 2011 mature in 2022.
(d) PPL WEM, through PPL, and PPL WW use cross-currency swaps to hedge the interest payments and principal of their U.S. dollar-denominated senior notes with maturity dates ranging from May 2016 to December 2028. While PPL is exposed to changes in the fair value of these instruments, any change in the fair value of these instruments is recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in both interest rates and foreign currency exchange rates.
(e) PPL utilizes various risk management instruments to adjust the mix of fixed and floating interest rates in its debt portfolio. The change in fair value of these instruments, as well as the offsetting change in the value of the hedged exposure of the debt, is reflected in earnings. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at December 31, 2011 mature in 2047.
(f) PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at December 31, 2011 mature through 2033.

Foreign Currency Risk

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. In addition, PPL's domestic operations may make purchases of equipment in currencies other than U.S. dollars. See Note 1 to the Financial Statements for additional information regarding foreign currency translation.

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

PPL had the following foreign currency hedges outstanding at:

	December 31, 2011			December 31, 2010		
	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)
Net investment hedges (b)	£ 92	$ 7	$ (13)	£ 35	$ 7	$ (5)
Economic hedges (c)	288	11	(37)	89	4	(10)

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
(b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP.
(c) To economically hedge the translation of expected income denominated in GBP to U.S. dollars, PPL enters into a combination of average rate forwards and average rate options to sell GBP. The forwards and options outstanding at December 31, 2011 have termination dates ranging from January 2012 through November 2012.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the Susquehanna nuclear plant. At December 31, 2011, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on PPL's Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At December 31, 2011, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated $43 million reduction in the fair value of the trust assets, compared with $45 million at December 31, 2010. See Notes 18 and 23 to the Financial Statements for additional information regarding the NDT funds.

Defined Benefit Plans - Securities Price Risk

See "Application of Critical Accounting Policies - Defined Benefits" for additional information regarding the effect of securities price risk on plan assets.

Credit Risk

Credit risk is the risk that PPL would incur a loss as a result of nonperformance by counterparties of their contractual obligations. PPL maintains credit policies and procedures with respect to counterparty credit (including requirements that counterparties maintain specified credit ratings) and requires other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, PPL has concentrations of suppliers and customers among electric utilities, financial institutions and other energy marketing and trading companies. These concentrations may impact PPL's overall exposure to credit risk, positively or negatively, as counterparties may be similarly affected by changes in economic, regulatory or other conditions.

PPL includes the effect of credit risk on its fair value measurements to reflect the probability that a counterparty will default when contracts are out of the money (from the counterparty's standpoint). In this case, PPL would have to sell into a lower-priced market or purchase from a higher-priced market. When necessary, PPL records an allowance for doubtful accounts to reflect the probability that a counterparty will not pay for deliveries PPL has made but not yet billed, which are reflected in "Unbilled revenues" on the Balance Sheets. PPL also has established a reserve with respect to certain receivables from SMGT, which is reflected in accounts receivable on the Balance Sheets. See Note 15 to the Financial Statements for additional information.

In 2009, the PUC approved PPL Electric's PLR procurement plan for the period January 2011 through May 2013. To date, PPL Electric has conducted ten of its 14 planned competitive solicitations.

Under the standard Supply Master Agreement (the Agreement) for the competitive solicitation process, PPL Electric requires all suppliers to post collateral if their credit exposure exceeds an established credit limit. In the event a supplier defaults on its obligation, PPL Electric would be required to seek replacement power in the market. All incremental costs incurred by PPL Electric would be recoverable from customers in future rates. At December 31, 2011, substantially all of the successful bidders under all of the solicitations had an investment grade credit rating from S&P, and were not required to post collateral under the Agreement. There is no instance under the Agreement in which PPL Electric is required to post collateral to its suppliers.

See "Overview" in this Item 7 and Notes 15, 16, 18 and 19 to the Financial Statements for additional information on the competitive solicitations, the Agreement, credit concentration and credit risk.

Foreign Currency Translation

The value of the British pound sterling fluctuates in relation to the U.S. dollar. In 2011, changes in these exchange rates resulted in a foreign currency translation loss of $51 million, which primarily reflected a $69 million reduction to PP&E offset by a reduction of $18 million to net liabilities. In 2010, changes in these exchange rates resulted in a foreign currency translation loss of $63 million, which primarily reflected a $180 million reduction to PP&E offset by a reduction of $117 million to net liabilities. In 2009, changes in these exchange rates resulted in a foreign currency translation gain of $106 million, which primarily reflected a $225 million increase in PP&E offset by an increase of $119 million to net liabilities. The impact of foreign currency translation is recorded in AOCI.

Related Party Transactions

PPL is not aware of any material ownership interests or operating responsibility by senior management of PPL, PPL Energy Supply, PPL Electric, LKE, LG&E or KU in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with PPL. See Note 16 to the Financial Statements for additional information on related party transactions.

Acquisitions, Development and Divestitures

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

In April 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of WPD Midlands. In November 2010, PPL completed its acquisition of LKE. See Note 10 to the Financial Statements for additional information.

See Notes 8, 9 and 10 to the Financial Statements for additional information on the more significant activities.

Environmental Matters

Protection of the environment is a priority for PPL and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to PPL's air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc., and may impact the cost for their products or their demand for PPL's services. See "Item 1. Business - Environmental Matters" and Note 15 to the Financial Statements for a discussion of environmental matters.

Competition

See "Competition" under each of PPL's reportable segments in "Item 1. Business - Segment Information" and "Item 1A. Risk Factors" for a discussion of competitive factors affecting PPL.

New Accounting Guidance

See Notes 1 and 24 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). PPL's senior management has reviewed these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them, with PPL's Audit Committee.

1) Price Risk Management

See "Price Risk Management" in Note 1 to the Financial Statements, as well as "Risk Management - Energy Marketing & Trading and Other" above.

2) Defined Benefits

Certain PPL subsidiaries sponsor various qualified funded and non-qualified unfunded defined benefit pension plans. Certain PPL subsidiaries also sponsor both funded and unfunded other postretirement plans. These plans are applicable to the majority of the employees of PPL. PPL and certain of its subsidiaries record an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to OCI or regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 13 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

PPL and its subsidiaries make certain assumptions regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in OCI or regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. These amounts in AOCI or regulatory assets and liabilities are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- Discount Rate - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.

- Expected Return on Plan Assets - Management projects the long-term rates of return on plan assets based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. These projected returns reduce the net benefit costs PPL records currently.

- Rate of Compensation Increase - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.

- Health Care Cost Trend Rate - Management projects the expected increases in the cost of health care.

In selecting a discount rate for its U.S. defined benefit plans, PPL starts with a cash flow analysis of the expected benefit payment stream for its plans. For 2010, these plan-specific cash flows were matched against a spot-rate yield curve to determine the assumed discount rate. To develop the spot-rate yield curve, the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, served as the base from which those with the lowest and highest yields were eliminated to develop an appropriate subset of bonds from which the ultimate yield curve would be built. At that time, Management believed this plan-specific cash flow matching model represented the best available tool for estimating the discount rate. Beginning in 2011, PPL utilized a new tool that enhanced this plan-specific cash flow matching methodology by primarily matching the plan-specific cash flows against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the same subset of the universe of Aa-rated corporate bonds from which those with the lowest and highest yields were eliminated, similar to the yield curve approach. Individual bonds were then selected based on the timing of each plan's cash flows and parameters were established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed. This process more accurately approximated the process of settlement of the obligations, which better aligns with the objective of selecting the discount rate. At December 31, 2011, PPL decreased the discount rate for its U.S. pension plans from 5.42% to 5.06% and decreased the discount rate for its other postretirement benefit plans from 5.14% to 4.80%.

In 2011 and 2010, a similar process to the 2010 approach described above was used to select the discount rate for the U.K. pension plans, which used an iBoxx British pounds sterling denominated corporate bond index as its base. This discount rate selection methodology was not modified for the U.K. pension plans because the universe of bonds in the U.K. is not deep enough to adequately support a bond matching process. At December 31, 2011, the discount rate for the U.K. pension plans was decreased from 5.54% to 5.24% as a result of this assessment.

The expected long-term rates of return for PPL's U.S. defined benefit pension and other postretirement benefit plans have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. PPL management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption.

Based on PPL's change to a liability-driven investment strategy, PPL's U.S. defined benefit pension assets have shifted into a greater proportion of fixed-income investments. Based on this change in investment strategy, at December 31, 2011, PPL's expected return on plan assets decreased from 7.25% to 7.07% for its U.S. pension plans and decreased from 6.57% to 5.93% for its other postretirement benefit plans. The expected long-term rates of return for PPL's U.K. pension plans have been developed by PPL management with assistance from an independent actuary using a best-estimate of expected returns, volatilities and correlations for each asset class. For the U.K. plans, PPL's expected return on plan assets decreased from 7.86% to 7.17% at December 31, 2011. This decrease was primarily the result of the acquisition of WPD Midlands and its pension plan, which has a greater portion of assets invested in fixed income securities resulting in a lower rate of return.

In selecting a rate of compensation increase, PPL considers past experience in light of movements in inflation rates. At December 31, 2011, PPL's rate of compensation increase changed from 4.88% to 4.02% for its U.S. pension plans and 4.90% to 4.00% for its other postretirement benefit plans. For the U.K. plans, PPL's rate of compensation increase remained at 4.00% at December 31, 2011.

In selecting health care cost trend rates, PPL considers past performance and forecasts of health care costs. At December 31, 2011, PPL's health care cost trend rates were 8.50% for 2012, gradually declining to 5.50% for 2019.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and OCI or regulatory assets and liabilities for LG&E, KU and PPL Electric. While the charts below reflect either an increase or decrease in each assumption, the inverse of this change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and OCI or regulatory assets and liabilities for LG&E, KU and PPL Electric by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption and does not include income tax effects.

At December 31, 2011, the defined benefit plans were recorded as follows.

Pension assets	$	130
Pension liabilities		(1,327)
Other postretirement benefit liabilities		(296)

The following chart reflects the sensitivities in the December 31, 2011 Balance Sheet associated with a change in certain assumptions based on PPL's primary defined benefit plans.

	Increase (Decrease)			
Actuarial assumption	**Change in assumption**	**Impact on defined benefit liabilities**	**Impact on OCI**	**Impact on regulatory assets**
Discount Rate	(0.25)%	$ 386	$ (314)	$ 72
Rate of Compensation Increase	0.25%	59	(48)	11
Health Care Cost Trend Rate (a)	1.00%	8	(2)	6

(a) Only impacts other postretirement benefits.

In 2011, PPL recognized net periodic defined benefit costs charged to operating expense of $204 million. This amount represents a $102 million increase from 2010. This increase in expense was primarily attributable to the pension costs of the newly acquired pension plans of WPD Midlands, including separation costs, and a full year of LKE pension costs for 2011.

The following chart reflects the sensitivities in the 2011 Statement of Income (excluding income tax effects) associated with a change in certain assumptions based on PPL's primary defined benefit plans.

Actuarial assumption	Change in assumption	Impact on defined benefit costs
Discount Rate	(0.25)%	$ 23
Expected Return on Plan Assets	(0.25)%	21
Rate of Compensation Increase	0.25%	10
Health Care Cost Trend Rate (a)	1.00%	1

(a) Only impacts other postretirement benefits.

3) Asset Impairment

Impairment analyses are performed for long-lived assets that are subject to depreciation or amortization whenever events or changes in circumstances indicate that a long-lived asset's carrying value may not be recoverable. For these long-lived assets classified as held and used, such events or changes in circumstances are:

- a significant decrease in the market price of an asset;
- a significant adverse change in the manner in which an asset is being used or in its physical condition;
- a significant adverse change in legal factors or in the business climate;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset;
- a current period operating or cash flow loss combined with a history of losses or a forecast that demonstrates continuing losses; or
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For a long-lived asset classified as held and used, an impairment is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying value to its estimated fair value. Management must make significant judgments to estimate future cash flows, including the useful lives of long-lived assets, the fair value of the assets and management's intent to use the assets. Alternate courses of action are considered to recover the carrying value of a long-lived asset, and estimated cash flows from the "most likely" alternative are used to assess impairment whenever one alternative is clearly the most likely outcome. If no alternative is clearly the most likely, then a probability-weighted approach is used taking into consideration estimated cash flows from the alternatives. For assets tested for impairment as of the balance sheet date, the estimates of future cash flows used in that test consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of a future sale of the assets. That assessment is not revised based on events that occur after the balance sheet date. Changes in assumptions and estimates could result in significantly different results than those identified and recorded in the financial statements.

For a long-lived asset classified as held for sale, an impairment exists when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If the asset (disposal group) is impaired, an impairment loss is recorded to adjust the carrying amount to its fair value less cost to sell. A gain is recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative impairment previously recognized.

For determining fair value, quoted market prices in active markets are the best evidence. However, when market prices are unavailable, the Registrant considers all valuation techniques appropriate under the circumstances and for which market participant inputs can be obtained. Generally discounted cash flows are used to estimate fair value, which incorporates market participant inputs when available. Discounted cash flows are calculated by estimating future cash flow streams and applying appropriate discount rates to determine the present value of the cash flow streams.

See Note 18 to the Financial Statements for a discussion of impairments related to certain intangible assets in 2011.

Goodwill is tested for impairment at the reporting unit level. PPL's reporting units have been determined to be at the operating segment level. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying value of the reporting unit may be greater than the unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

Goodwill is tested for impairment using a two-step approach. In step one, PPL identifies a potential impairment by comparing the estimated fair value of a reporting unit with its carrying value, including goodwill, on the measurement date. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is not considered impaired. If the carrying value exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.

The second step requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. That is, the estimated fair value of a reporting unit is allocated to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination and the estimated fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the estimated fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of the reporting unit's goodwill is then compared with the carrying value of that goodwill. If the carrying value exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying value of the reporting unit's goodwill.

PPL tested the goodwill of its reporting units for impairment in the fourth quarter of 2011 and no impairment was recognized. Management used both discounted cash flows and market multiples, which required significant assumptions, to estimate the fair value of each reporting unit. Applying an appropriate weighting to both the discounted cash flow and market multiple valuations, a decrease in the forecasted cash flows of 10%, an increase in the discount rate by 25 basis points, or a 10% decrease in the multiples would not have resulted in an impairment of goodwill.

In 2010 and 2009, $5 million and $3 million of goodwill allocated to discontinued operations was written off.

4) Loss Accruals

Losses are accrued for the estimated impacts of various conditions, situations or circumstances involving uncertain or contingent future outcomes. For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that a loss has been incurred, given the likelihood of the uncertain future events, and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

The accounting aspects of estimated loss accruals include (1) the initial identification and recording of the loss, (2) the determination of triggering events for reducing a recorded loss accrual, and (3) the ongoing assessment as to whether a recorded loss accrual is sufficient. All three of these aspects require significant judgment by management. Internal expertise and outside experts (such as lawyers and engineers) are used, as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

No new significant loss accruals were recorded in 2011.

Certain other events have been identified that could give rise to a loss, but that do not meet the conditions for accrual. Such events are disclosed, but not recorded, when it is "reasonably possible" that a loss has been incurred. See Note 15 to the Financial Statements for disclosure of other potential loss contingencies that have not met the criteria for accrual.

When an estimated loss is accrued, the triggering events for subsequently reducing the loss accrual are identified, where applicable. The triggering events generally occur when the contingency has been resolved and the actual loss is paid or written off, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the reduction of certain recorded loss accruals:

- Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted, a better estimate of the allowance is determined or underlying amounts are ultimately collected.

- Environmental and other litigation contingencies are reduced when the contingency is resolved and actual payments are made, a better estimate of the loss is determined or the loss is no longer considered probable.

Loss accruals are reviewed on a regular basis to assure that the recorded potential loss exposures are appropriate. This involves ongoing communication and analyses with internal and external legal counsel, engineers, operation management and other parties.

See Note 15 to the Financial Statements for a discussion of the Montana Hydroelectric Litigation, including the reversal of an $89 million loss accrual, as a result of management's assessment of the February 2012 U.S. Supreme Court decision.

5) Asset Retirement Obligations

PPL is required to recognize a liability for legal obligations associated with the retirement of long-lived assets. The initial obligation is measured at its estimated fair value. A conditional ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. An equivalent amount is recorded as an increase in the value of the capitalized asset and allocated to expense over the useful life of the asset. Until the obligation is settled, the liability is increased, through the recognition of accretion expense in the income statement, for changes in the obligation due to the passage of time.

In the case of LG&E and KU, estimated costs of removal for all assets are recovered in rates as a component of depreciation. Since costs of removal are collected in rates prior to payment of such costs, the accrual for these costs of removal is classified as a regulatory liability. The regulatory liability is relieved as costs are incurred. The depreciation and accretion expense related to an ARO are offset with a regulatory credit on the income statement, such that there is no earnings impact. The regulatory asset created by the regulatory credit is relieved when the ARO has been settled.

See Note 21 to the Financial Statements for further discussion of AROs.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that considers estimated retirement costs in current period dollars that are inflated to the anticipated retirement date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is amortized over the remaining life of the associated long-lived asset.

At December 31, 2011, AROs totaling $497 million were recorded on the Balance Sheet, of which $13 million is included in "Other current liabilities." Of the total amount, $292 million, or 59%, relates to the nuclear decommissioning ARO. The most significant assumptions surrounding AROs are the forecasted retirement costs, the discount rates and the inflation rates. A variance in any of these inputs could have a significant impact on the ARO liabilities.

The following table reflects the sensitivities related to the nuclear decommissioning ARO liability associated with a change in these assumptions as of December 31, 2011. There is no significant change to the annual depreciation expense of the ARO asset or the annual accretion expense of the ARO liability as a result of changing the assumptions. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption.

	Change in Assumption	Impact on ARO Liability
Retirement Cost	10%	$ 29
Discount Rate	(0.25)%	26
Inflation Rate	0.25%	30

6) Income Taxes

Significant management judgment is required in developing the provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and the determination of deferred tax assets, liabilities and valuation allowances.

Significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. Tax positions are evaluated following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds

50%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known at the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be de-recognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future.

At December 31, 2011, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase by as much as $43 million or decrease by up to $129 million. This change could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the creditability of foreign taxes, the timing and utilization of foreign tax credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized to account for an uncertain tax position. Management also considers the uncertainty posed by political risk and the effect of this uncertainty on the various factors that management takes into account in evaluating the need for valuation allowances. The amount of deferred tax assets ultimately realized may differ materially from the estimates utilized in the computation of valuation allowances and may materially impact the financial statements in the future. See Note 5 to the Financial Statements for income tax disclosures.

7) Regulatory Assets and Liabilities

Certain of PPL's subsidiaries are subject to cost-based rate regulation. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to other regulated entities, and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, then asset write-offs would be required to be recognized in operating income. Additionally, the regulatory agencies can provide flexibility in the manner and timing of depreciation of PP&E and amortization of regulatory assets.

At December 31, 2011 and 2010, PPL had regulatory liabilities of $1.1 billion. At December 31, 2011 and 2010, PPL had regulatory assets of $1.4 billion and $1.3 billion. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

In March 2012, PPL Electric plans to file a request with the FERC seeking recovery, over a 34-year period beginning in June 2012, of its unrecovered regulatory asset related to the deferred state tax liability that existed at the time of the transition from the flow-through treatment of state income taxes to full normalization. This change in tax treatment occurred in 2008 as a result of prior FERC initiatives that transferred regulatory jurisdiction of certain transmission assets from the PUC to the FERC. A regulatory asset of $51 million related to this transition, classified as taxes recoverable through future rates, is included in "Other Noncurrent Assets - Regulatory assets" on the Balance Sheet. PPL Electric believes recoverability of this regulatory asset is probable based on FERC precedent in similar cases; however, it is reasonably possible that the FERC may limit the recovery of all or part of the claimed asset.

See Note 6 to the Financial Statements for additional information on regulatory assets and liabilities.

8) Business Combinations - Purchase Price Allocation

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary, PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently referred to as WPD Midlands). In accordance with accounting guidance on business combinations, the identifiable assets acquired and the liabilities assumed were measured at fair value at the acquisition date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The excess of the purchase price over the estimated fair value of the identifiable net assets was recorded as goodwill.

The determination and allocation of fair value to the identifiable assets acquired and liabilities assumed was based on various assumptions and valuation methodologies requiring considerable management judgment, including estimates based on key assumptions of the acquisition, and historical and current market data. Significant variables in these valuations include the discount rates, the number of years on which to base cash flow projections, as well as the assumptions and estimates used to determine cash inflows and outflows.

The fair value of the majority of PP&E was determined utilizing a discounted cash flow approach and corroborated by the RAV, which is a measure of the unrecovered value of the regulated network business in the U.K. For purposes of measuring the fair value of the majority of PP&E, PPL determined that fair value should approximate the RAV at the acquisition date because WPD Midlands' operations are conducted in a regulated environment and the regulator allows for earning a rate of return on and recovery of RAV at rates determined to be fair and reasonable. As there is no current prospect for deregulation in WPD Midlands' operating area, it is expected that these operations will remain in a regulated environment for the foreseeable future; therefore, management has concluded that the use of these assets in the regulatory environment represents their highest and best use and a market participant would measure the fair value of these assets using the regulatory rate of return as the discount rate, thus resulting in fair value approximately equal to the RAV.

The purchase price allocation resulted in goodwill of $2.4 billion that was assigned to the International Regulated segment. This reflects the expected continued growth of a rate-regulated business with a defined service area operating under a constructive regulatory framework, expected cost savings, efficiencies and other benefits resulting from a contiguous service area with WPD (South West) and WPD (South Wales) and the ability to leverage WPD (South West)'s and WPD (South Wales)'s existing management team's high level of performance in capital cost efficiency, system reliability and customer service.

See Note 10 to the Financial Statements for additional information regarding the acquisition.

Other Information

PPL's Audit Committee has approved the independent auditor to provide audit and audit-related services, tax services and other services permitted by Sarbanes-Oxley and SEC rules. The audit and audit-related services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information provided in this Item 7 should be read in conjunction with PPL Energy Supply's Consolidated Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of PPL Energy Supply and its business strategy. "Financial and Operational Developments" includes a review of Net Income Attributable to PPL Energy Supply and discusses certain events that are important to understanding PPL Energy Supply's results of operations and financial condition.

- "Results of Operations" provides a summary of PPL Energy Supply's earnings and a description of key factors expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on PPL Energy Supply's Statements of Income, comparing 2011, 2010 and 2009.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL Energy Supply's liquidity position and credit profile. This section also includes a discussion of rating agency decisions and capital expenditure projections.

- "Financial Condition - Risk Management - Energy Marketing & Trading and Other" provides an explanation of PPL Energy Supply's risk management programs relating to market and credit risk.

- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of PPL Energy Supply and that require its management to make significant estimates, assumptions and other judgments of matters inherently uncertain.

Overview

Introduction

PPL Energy Supply is an energy company with headquarters in Allentown, Pennsylvania. Through its subsidiaries, PPL Energy Supply is primarily engaged in the generation and marketing of electricity in two key markets - the northeastern and northwestern U.S.

In 2011, PPL Energy Supply operated in one reportable segment compared with two reportable segments in previous years - International Regulated and Supply. In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to its direct parent, PPL Energy Funding, to better align PPL's organizational structure with the manner in which it manages its businesses and reports segment information in its consolidated financial statements. The distribution separated the U.S.-based competitive energy marketing and supply business from the U.K.-based regulated electricity distribution business. As a result, effective January 1, 2011, PPL Energy Supply operates in a single business segment. The 2010 and 2009 operating results of the International Regulated segment have been reclassified to "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income. See Note 9 to the Financial Statements for additional information on the January 2011 distribution.

Business Strategy

PPL Energy Supply's overall strategy is to achieve disciplined optimization of energy supply margins while mitigating volatility in both cash flows and earnings. More specifically, PPL Energy Supply's strategy is to optimize the value from its unregulated generation and marketing portfolio. PPL Energy Supply endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk.

To manage financing costs and access to credit markets, a key objective of PPL Energy Supply's business is to maintain a strong credit profile. PPL Energy Supply continually focuses on maintaining an appropriate capital structure and liquidity position. In addition, PPL Energy Supply has financial and operational risk management programs that, among other things, are designed to monitor and manage its exposure to earnings and cash flow volatility related to changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of its generating units.

Financial and Operational Developments

Net Income Attributable to PPL Energy Supply

Net Income Attributable to PPL Energy Supply for 2011, 2010 and 2009 was $768 million, $861 million and $246 million. Earnings in 2011 decreased 11% from 2010 and earnings in 2010 increased 250% over 2009. These changes reflect the following after-tax impacts:

	2011 vs. 2010	2010 vs. 2009
Net unrealized gains (losses) on energy-related economic activity	$ 193	$ 104
Losses on the monetization of certain full-requirement sales contracts in 2010	125	(125)
Sales of generation facilities	46	(33)
Litigation settlement in 2011 related to spent nuclear fuel storage	33	
Montana hydroelectric litigation	84	(31)
State valuation allowance adjustments	(74)	52
Change in "Unregulated Gross Energy Margins" (a)	(240)	608
Results of PPL Global	(261)	18
Other	1	22
	$ (93)	$ 615

(a) See "Statement of Income Analysis - Margins" for additional information, including a reconciliation of this non-GAAP financial measure to operating income.

See "Results of Operations" below for further discussion and analysis of the consolidated results of operations, as well as a discussion of each of PPL's business segments.

Susquehanna Turbine Blade Replacement

In April 2011, during the PPL Susquehanna Unit 2 refueling and generation uprate outage, a planned inspection of the Unit 2 turbine revealed cracks in certain of its low pressure turbine blades. Replacement of these blades was required, but was not anticipated as part of the original scope of this outage. The necessary replacement work extended the Unit 2 outage by six weeks. As a precaution, PPL Susquehanna also took Unit 1 out of service in mid-May to inspect the turbine blades in that unit. This inspection revealed cracks in blades similar to those found in Unit 2. The duration of the Unit 1 outage, in which turbine blades were replaced, was also about six weeks. The after-tax earnings impact, including reduced energy-sales margins and repair expense for both units, was $63 million.

Spent Nuclear Fuel Litigation

In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna plant. Under the settlement agreement, PPL Susquehanna received $50 million, pre-tax, for its share of claims to partially offset its expenses incurred to store spent nuclear fuel at the Susquehanna plant through September 2009 and recognized a credit to "Fuel" expense in 2011. PPL Susquehanna will also be eligible to receive payment of annual claims for allowed costs that are incurred through the December 2013 termination of the settlement agreement. In exchange, PPL Susquehanna has waived any claims against the U.S. Government for costs paid or injuries sustained related to storing spent nuclear fuel at the Susquehanna plant through December 31, 2013. See Note 15 to the Financial Statements for additional information.

Bankruptcy of SMGT

In October 2011, SMGT, a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus expiring in June 2019 (SMGT Contract), filed for protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court in Montana. At December 31, 2011, damages related to SMGT accepting less power than provided in the SMGT Contract totaled approximately $11 million, all of which has been fully reserved. No assurance can be given as to the collectability of these damages.

The SMGT Contract provides for fixed volume purchases on a monthly basis at established prices. A trustee has been appointed for SMGT's estate in the bankruptcy proceeding and PPL EnergyPlus has been involved in preliminary discussions with the trustee concerning possible modifications to the SMGT Contract as part of the bankruptcy reorganization. Pursuant to a stipulation entered into by SMGT and PPL EnergyPlus, since the date of its Chapter 11 filing through January 2012, SMGT has continued to purchase electricity from PPL EnergyPlus at the price specified in the SMGT Contract, and has made timely payments for such purchases, but at lower volumes than as prescribed in the SMGT Contract. In January 2012, the trustee notified PPL EnergyPlus that SMGT would not purchase electricity under the SMGT Contract for the month of February. In addition, the trustee requested PPL EnergyPlus to leave the SMGT Contract in place to permit SMGT to purchase electricity in the event its requirements were not met by third-party providers from whom the trustee intends to purchase power on behalf of SMGT, at prices more favorable than under the SMGT Contract, for future periods. PPL EnergyPlus is evaluating the trustee's request.

At the present time, PPL cannot predict whether SMGT will be successful in its attempts to reorganize its business under Chapter 11 of the U.S. Bankruptcy Code or the extent to which the SMGT Contract may be modified as part of a successful Chapter 11 reorganization and, in either case, PPL cannot presently predict the extent to which it will be able to market to third parties any amount of power that SMGT ultimately does not continue to purchase from PPL EnergyPlus.

CSAPR

In July 2011, the EPA signed the CSAPR, which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010, and made revisions to the rule on February 7, 2012. This rule applies to PPL Energy Supply's coal plants in Pennsylvania. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions.

In December 2011, the U.S. Court of Appeals for the District of Columbia (Court) stayed implementation of the CSAPR and left CAIR in effect pending a final resolution on the merits of the validity of the rule. Oral argument on the various challenges to the CSAPR is scheduled for April 2012, and a final decision on the validity of the rule could be issued as early as May 2012.

PPL Energy Supply's coal fired power plants can meet both the CAIR and the proposed CSAPR sulfur dioxide emission requirements with the existing scrubbers that went in-service in 2008 and 2009. For nitrogen oxide, under both the CAIR and the proposed CSAPR, PPL Energy Supply would need to buy allowances or make operational changes, the cost of which is not anticipated to be significant.

See Note 15 to the Financial Statements for additional information on the CSAPR.

Montana Hydroelectric Litigation

In June 2011, the U.S. Supreme Court granted PPL Montana's petition to review the March 2010 Montana Supreme Court decision, which substantially affirmed the June 2008 Montana District Court decision to award the State of Montana retroactive compensation for PPL Montana's hydroelectric facilities' use and occupancy of certain Montana riverbeds. Oral argument was held in December 2011. On February 22, 2012, the U.S. Supreme Court issued a decision overturning the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. As a result, PPL Montana reversed its total loss accrual of $89 million, which had been recorded prior to the U.S. Supreme Court decision. PPL Montana believes the U.S. Supreme Court decision resolves certain questions of liability in this case in favor of PPL Montana and leaves open for reconsideration by Montana courts, consistent with the findings of the U.S. Supreme Court, certain other questions. The State of Montana has 30 days from February 22, 2012 to petition the U.S. Supreme Court for a rehearing. PPL Montana has concluded it is no longer probable, but it remains reasonably possible, that a loss has been incurred. While unable to estimate a range of loss, PPL Montana believes that any such amount would not be material. See Note 15 to the Financial Statements for additional information.

Results of Operations

When comparing 2011 and 2010 with 2009, certain line items on PPL Energy Supply's financial statements were impacted by the expiration of the generation rate caps and the expiration of the PLR contracts between PPL EnergyPlus and PPL Electric at the end of 2009. Overall, they had a significant positive impact on PPL Energy Supply's results of operations, financial condition and cash flows during 2010.

The primary impact of the expiration of generation rate caps and these contracts is reflected in PPL Energy Supply's Unregulated Gross Energy Margins. See "Statement of Income Analysis - Margins - Non-GAAP Financial Measure" for an explanation of this non-GAAP financial measure. In 2011 and 2010, PPL Energy Supply sold the majority of its generation supply under various contracts at prevailing market rates at the time the contracts were executed. In 2009, the majority of generation produced by PPL Energy Supply's generation plants was sold to PPL Electric's customers as PLR supply under predetermined capped rates.

Earnings

Net Income Attributable to PPL Energy Supply includes the following results:

	2011	2010	% Change	2010	2009	% Change
Operating revenues	$ 6,429	$ 5,128	25	$ 5,128	$ 5,309	(3)
Fuel	1,080	1,096	(1)	1,096	920	19
Energy purchases	2,286	1,353	69	1,353	2,737	(51)
Other operation and maintenance	929	979	(5)	979	921	6
Depreciation	244	236	3	236	196	20
Taxes, other than income	71	46	54	46	29	59
Energy-related business	458	357	28	357	371	(4)
Total operating expenses	5,068	4,067	25	4,067	5,174	(21)
Other Income (Expense) - net	23	22	5	22	44	(50)
Other-Than-Temporary Impairments	6	3	100	3	18	(83)
Interest Income from Affiliates	8	9	(11)	9	2	350
Interest Expense	174	208	(16)	208	176	18
Income Taxes	445	261	70	261	3	8,600
Income (Loss) from Discontinued Operations	2	242	(99)	242	263	(8)
Net Income	769	862	(11)	862	247	249
Net Income Attributable to Noncontrolling Interests	1	1		1	1	
Net Income Attributable to PPL Energy Supply	$ 768	$ 861	(11)	$ 861	$ 246	250

The changes in the components of Net Income Attributable to PPL Energy Supply between these periods were due to the following factors. PPL Energy Supply's results are adjusted for certain items that management considers special. See additional detail of these special items in the tables below.

	2011 vs. 2010	2010 vs. 2009
Unregulated gross energy margins	$ (405)	$ 1,039
Other operation and maintenance	(65)	(44)
Depreciation	(8)	(41)
Taxes other than income	(9)	(3)
Other Income (Expense) - net	3	(1)
Interest Expense	4	(12)
Other	(3)	
Income Taxes	146	(300)
Discontinued operations - Domestic, after-tax - excluding certain revenues and expenses included in margins	16	13
Discontinued operations - International, after-tax	(261)	18
Special items, after-tax	489	(54)
Total	$ (93)	$ 615

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.

- Other operation and maintenance increased in 2011 compared with 2010, primarily due to higher costs at PPL Susquehanna of $30 million, largely due to unplanned outages, the refueling outage and payroll, higher costs at eastern fossil and hydro units of $20 million, largely due to outages, and higher costs at western fossil and hydro units of $15 million, largely resulting from insurance recoveries received in 2010.

  Other operation and maintenance increased in 2010 compared with 2009, primarily due to higher costs at PPL Susquehanna of $31 million largely due to higher payroll-related costs, higher outage costs, and higher project costs.

- Depreciation increased in 2010 compared with 2009, primarily due to $21 million impact from environmental equipment at Brunner Island that was placed in service in 2009 and early 2010.

- Other income (expense) - net was lower in 2010 compared with 2009, due to a $25 million gain recognized in 2009 related to the tender offers to purchase debt that resulted from reclassifying net gains on related cash flow hedges from AOCI into earnings, partially offset by a $15 million decrease in other-than-temporary impairment charges, primarily due to stronger returns on investments in NDT funds in 2010 and a $7 million increase in interest income from affiliates, primarily due to loans to LKE subsidiaries in 2010.

- Income taxes decreased in 2011 compared with 2010, primarily due to the $196 million impact of lower pre-tax income and a $26 million reduction in deferred tax liabilities related to a change in the Pennsylvania estimated state tax rate. These decreases were partially offset by $74 million in Pennsylvania net operating loss valuation allowance adjustments, primarily related to lower projected future taxable income, driven in part by the impact of bonus depreciation, $13 million in favorable adjustments to uncertain tax benefits recorded in 2010 and an $11 million decrease in the domestic manufacturing deduction tax benefit resulting from revised bonus depreciation estimates.

Income taxes increased in 2010 compared with 2009, primarily due to the $364 million impact of higher pre-tax income, partially offset by a $52 million in Pennsylvania net operating loss valuation allowance adjustments, primarily related to higher projected future taxable income, $10 million in investment tax credits associated with the Holtwood and Rainbow projects, $8 million in favorable adjustments to uncertain tax benefits recorded in 2010 and $8 million of higher tax benefits from the domestic manufacturing deduction.

Income (loss) from International discontinued operations - International, represents the results of PPL Global which was distributed to PPL Energy Supply's parent, PPL Energy Funding in January 2011. See Note 9 to the Financial Statements for additional information. Income from discontinued operations, excluding special items, decreased in 2010 compared with 2009, primarily due to:

- U.K. utility revenues increased $42 million in 2010 compared with 2009, primarily due to price increases in April 2010 and 2009, partially offset by lower regulatory recovery due to a revised estimate of network electricity losses.

- U.K. other operation and maintenance increased $47 million in 2010 compared with 2009, primarily due to higher pension expense resulting from an increase in amortization of actuarial losses.

- U.K. interest expense increased $50 million in 2010 compared with 2009, primarily due to the $23 million impact from higher inflation rates on index-linked Senior Unsecured Notes and $25 million in interest expense related to the March 2010 debt issuance.

- U.K. income taxes decreased $26 million in 2010 compared with 2009, primarily due to $45 million in realized capital losses that offset a gain relating to a business activity sold in 1999 and the $14 million impact of lower pre-tax income, partially offset by $31 million in favorable settlements of uncertain tax positions in 2009.

- U.S. income taxes increased in 2010 compared with 2009, primarily due to $60 million in changes in the taxable amount of planned U.K. cash repatriations, partially offset by $23 million in adjustments to uncertain tax benefits.

The following after-tax amounts, which management considers special items, also impacted the results.

	Income Statement Line Item	**2011**	**2010**	**2009**
Special items gains (losses), net of tax benefit (expense):				
Adjusted energy-related economic activity, net, net of tax of ($52), $85, $158	(a)	$ 72	$ (121)	$ (225)
Sales of assets:				
Maine hydroelectric generation business, net of tax of $0, ($9), ($16) (b)	Disc. Operations		15	22
Sundance indemnification, net of tax of $0, $0, $0	Other Income-net		1	
Long Island generation business, net of tax of $0, $0, $19 (c)	Disc. Operations			(33)
Interest in Wyman Unit 4, net of tax of $0, $0, $2	Disc. Operations			(4)
Impairments:				
Emission allowances, net of tax of $1, $6, $14 (d)	Other O&M	(1)	(10)	(19)
Renewable energy credits, net of tax of $2, $0, $0 (Note 13)	Other O&M	(3)		
Other asset impairments, net of tax of $1, $0, $2	Other O&M			(4)
Workforce reduction, net of tax of $0, $0, $4 (e)	Other O&M			(6)
LKE acquisition-related costs:				
Monetization of certain full-requirement sales contracts, net of tax of $0, $89, $0	(f)		(125)	
Sale of certain non-core generation facilities, net of tax of $0, $37, $0 (c)	Disc. Operations	(2)	(64)	
Reduction of credit facility, net of tax of $0, $4, $0 (g)	Interest Expense		(6)	
Other:				
Montana hydroelectric litigation, net of tax of ($30), $22, $2	(h)	45	(34)	(3)
Litigation settlement - spent nuclear fuel storage, net of tax of ($24), $0, $0 (i)	Fuel	33		
Health care reform - tax impact (j)	Income Taxes		(5)	
Montana basin seepage litigation, net of tax of $0, ($1), $0	Other O&M		2	
Change in tax accounting method related to repairs (k)	Income Taxes			(21)
Counterparty bankruptcy, net of tax of $5, $0, $0 (l)	Other O&M	(6)		
Wholesale supply cost reimbursement, net of tax of ($3), $0, $0	(m)	4		
Total		$ 142	$ (347)	$ (293)

(a) See "Reconciliation of Economic Activity" below.
(b) Gains recorded on the sale of the Maine hydroelectric generation business. See Note 9 to the Financial Statements for additional information.
(c) Consists primarily of the initial impairment charge recorded when the business was classified as held for sale. See Note 9 to the Financial Statements for additional information.
(d) Primarily represents impairment charges of sulfur dioxide emission allowances.
(e) Relates primarily to enhanced pension and severance benefits as a result of a 2009 workforce reduction.

(f) In July 2010, in order to raise additional cash for the LKE acquisition, certain full-requirement sales contracts were monetized that resulted in cash proceeds of $249 million. See "Monetization of Certain Full-Requirement Sales Contracts" in Note 19 to the Financial Statements for additional information. $343 million of pre-tax gains were recorded to "Wholesale energy marketing" and $557 million of pre-tax losses were recorded to "Energy purchases" on the Statements of Income.

(g) In October 2010, PPL Energy Supply made borrowings under its Syndicated Credit Facility in order to enable a subsidiary to make loans to certain affiliates to provide interim financing of amounts required by PPL to partially fund PPL's acquisition of LKE. Subsequent to the repayment of such borrowing, the capacity was reduced, and as a result, PPL Energy Supply wrote off deferred fees in 2010.

(h) In 2009, PPL Montana adjusted its previously recorded accrual related to hydroelectric litigation, of which $5 million, pre-tax, related to prior periods. In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. In 2010, PPL Montana recorded a pre-tax charge of $56 million, representing estimated rental compensation for years prior to 2010, including interest. Of this total charge $47 million, pre-tax, was recorded to "Other operation and maintenance" and $9 million, pre-tax, was recorded to "Interest Expense" on the Statements of Income. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the U.S. Supreme Court granted PPL Montana's petition. In February 2012, the U.S. Supreme Court overturned the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. Prior to the U.S. Supreme Court decision, $4 million, pre-tax, of interest expense on the rental compensation covered by the court decision was accrued in 2011. As a result of the U.S. Supreme Court decision, PPL Montana reversed its total pre-tax loss accrual of $89 million, which had been recorded prior to the U.S. Supreme Court decision, of which $79 million pre-tax is considered a special item because it represented $65 million of rent for periods prior to 2011 and $14 million of interest accrued on the portion covered by the prior court decision. These amounts were credited to "Other operation and maintenance" and "Interest Expense" on the Statement of Income.

(i) In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna plant. PPL Susquehanna recorded credits to fuel expense to recognize recovery, under the settlement agreement, of certain costs to store spent nuclear fuel at the Susquehanna plant. This special item represents amounts recorded in 2011 to cover the costs incurred from 1998 through December 2010.

(j) Represents income tax expense recorded as a result of the provisions within Health Care Reform which eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage.

(k) During 2009, PPL Energy Supply received consent from the IRS to change its method of accounting for certain expenditures for tax purposes. PPL Energy Supply deducted the resulting IRC Sec. 481 amount on its 2008 federal income tax return and recorded a $21 million adjustment to federal and state income tax expense resulting from the reduction in federal income tax benefits related to the domestic manufacturing deduction and certain state tax benefits related to state net operating losses.

(l) In October 2011, a wholesale customer, SMGT, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy code. The customer has continued to purchase electricity at the price specified in the supply contract, and has made timely payments for such purchases, but at lower volumes than as prescribed in the contract. As of December 31, 2011, the damage claim totaled $11 million pre-tax, which was fully reserved.

(m) In January 2012, PPL received $7 million pre-tax, related to electricity delivered to a wholesale customer in 2008 and 2009, recorded in "Wholesale energy marketing-Realized." The additional revenue results from several transmission projects approved at PJM for recovery that were not initially anticipated at the time of the electricity auctions and therefore were not included in the auction pricing. A FERC order was issued in 2011 approving the disbursement of these supply costs by the wholesale customer to the suppliers, therefore, PPL accrued its share of this additional revenue in 2011.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) from the table within "Commodity Price Risk (Non-trading) - Economic Activity" in Note 19 to the Financial Statements to the special item identified as "Adjusted energy-related economic activity, net."

	2011	2010	2009
Operating Revenues			
Unregulated retail electric and gas	$ 31	$ 1	$ 6
Wholesale energy marketing	1,407	(805)	(229)
Operating Expenses			
Fuel	6	29	49
Energy Purchases	(1,123)	286	(155)
Energy-related economic activity (a)	321	(489)	(329)
Option premiums (b)	19	32	(54)
Adjusted energy-related economic activity	340	(457)	(383)
Less: Unrealized economic activity associated with the monetization of certain full-requirement sales contracts in 2010 (c)		(251)	
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010	216		
Adjusted energy-related economic activity, net, pre-tax	$ 124	$ (206)	$ (383)
Adjusted energy-related economic activity, net, after-tax	$ 72	$ (121)	$ (225)

(a) See Note 19 to the Financial Statements for additional information.
(b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. Option premiums are recorded in "Wholesale energy marketing - Realized" and "Energy purchases - Realized" on the Statements of Income.
(c) See "Components of Monetization of Certain Full-Requirement Sales Contracts" below.

Components of Monetization of Certain Full-Requirement Sales Contracts

The following table provides the components of the "Monetization of Certain Full-Requirement Sales Contracts" special item.

		2010
Full-requirement sales contracts monetized (a)	$	(68)
Economic activity related to the full-requirement sales contracts monetized		(146)
Monetization of certain full-requirement sales contracts, pre-tax (b)	$	(214)
Monetization of certain full-requirement sales contracts, after-tax	$	(125)

(a) See "Commodity Price Risk (Non-trading) - Monetization of Certain Full-Requirement Sales Contracts" in Note 19 to the Financial Statements for additional information.
(b) Includes unrealized losses of $251 million, which are reflected in "Wholesale energy marketing - Unrealized economic activity" and "Energy purchases - Unrealized economic activity" on the Statement of Income. Also includes net realized gains of $37 million, which are reflected in "Wholesale energy marketing - Realized" and "Energy purchases - Realized" on the Statement of Income. This economic activity will continue to be realized through May 2013.

2012 Outlook

Excluding special items, PPL Energy Supply projects lower earnings in 2012 compared with 2011. The decrease is primarily driven by lower energy margins as a result of further declines in energy and capacity prices and higher fuel costs, higher operation and maintenance expenses and higher depreciation, which are partially offset by higher baseload generation.

Earnings beyond 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7 and Note 15 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Unregulated Gross Energy Margins." "Unregulated Gross Energy Margins" is a single financial performance measure of PPL Energy Supply's competitive energy non-trading and trading activities. In calculating this measure, PPL Energy Supply's energy revenues, which include operating revenues associated with certain PPL Energy Supply businesses that are classified as discontinued operations, are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges, gross receipts tax, which is recorded in "Taxes, other than income," and operating expenses associated with certain PPL Energy Supply businesses that are classified as discontinued operations. This performance measure is relevant to PPL Energy Supply due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant swings in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Wholesale energy marketing" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are recorded in "Wholesale energy marketing to affiliate" revenue. PPL Energy Supply excludes from "Unregulated Gross Energy Margins" energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of PPL Energy Supply's competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Also included in this energy-related economic activity is the ineffective portion of qualifying cash flow hedges, the monetization of certain full-requirement sales contracts and premium amortization associated with options. This economic activity is deferred, with the exception of the full-requirement sales contracts that were monetized, and included in unregulated gross energy margins over the delivery period that was hedged or upon realization. This measure is not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL Energy Supply believes that "Unregulated Gross Energy Margins" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management and PPL's Board of Directors to manage PPL Energy Supply's operations, analyze actual results compared with budget and measure certain corporate financial goals used in determining variable compensation.

Reconciliation of Non-GAAP Financial Measures

The following table reconciles "Operating Income" to "Unregulated Gross Energy Margins" as defined by PPL Energy Supply for the period ended December 31.

	2011			2010		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues						
Wholesale energy marketing						
Realized	$ 3,745	$ 62 (c)	$ 3,807	$ 4,511	$ 321 (c)	$ 4,832
Unrealized economic activity		1,407 (d)	1,407		(805) (d)	(805)
Wholesale energy marketing to affiliate	26		26	320		320
Unregulated retail electric and gas	696	31	727	414	1	415
Net energy trading margins	(2)		(2)	2		2
Energy-related businesses		464	464		364	364
Total Operating Revenues	4,465	1,964	6,429	5,247	(119)	5,128
Operating Expenses						
Fuel	1,151	(71) (e)	1,080	1,132	(36) (e)	1,096
Energy purchases						
Realized	912	248 (c)	1,160	1,389	247 (c)	1,636
Unrealized economic activity		1,123 (d)	1,123		(286) (d)	(286)
Energy purchases from affiliate	3		3	3		3
Other operation and maintenance	16	913	929	23	956	979
Depreciation		244	244		236	236
Taxes, other than income	30	41	71	14	32	46
Energy-related businesses		458	458		357	357
Total Operating Expenses	2,112	2,956	5,068	2,561	1,506	4,067
Discontinued Operations	12	(12) (f)		84	(84) (f)	
Total	$ 2,365	$ (1,004)	$ 1,361	$ 2,770	$ (1,709)	$ 1,061

	2009		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues			
Wholesale energy marketing			
Realized	$ 3,235	$ (51) (c)	$ 3,184
Unrealized economic activity		(229) (d)	(229)
Wholesale energy marketing to affiliate	1,806		1,806
Unregulated retail electric and gas	146	6	152
Net energy trading margins	17		17
Energy-related businesses		379	379
Total Operating Revenues	5,204	105	5,309
Operating Expenses			
Fuel	977	(57) (e)	920
Energy purchases			
Realized	2,509	3 (c)	2,512
Unrealized economic activity		155 (d)	155
Energy purchases from affiliate	70		70
Other operation and maintenance	30	891	921
Depreciation		196	196
Taxes, other than income		29	29
Energy-related businesses		371	371
Total Operating Expenses	3,586	1,588	5,174
Discontinued Operations	113	(113) (f)	
Total	$ 1,731	$ (1,596)	$ 135

(a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.
(c) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements. For 2011, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" include a net pre-tax gain of $19 million related to the amortization of option premiums and a net pre-tax loss of $216 million related to the monetization of certain full-requirement sales contracts. 2010 includes a net pre-tax gain of $32 million related to the amortization of option premiums and a net pre-tax gain of $37 million related to the monetization of certain full-requirement sales contracts. 2009 includes a net pre-tax loss of $54 million related to the amortization of option premiums.
(d) Represents energy-related economic activity, which is subject to wide swings in value due to market price volatility, as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 19 to the Financial Statements.
(e) Includes economic activity related to fuel. 2011 includes credits of $57 million for the spent nuclear fuel litigation settlement.
(f) Represents the net of certain revenues and expenses associated with certain businesses that are classified as discontinued operations. These revenues and expenses are not reflected in "Operating Income" on the Statements of Income.

Changes in Non-GAAP Financial Measures

Unregulated Gross Energy Margins are generated through PPL Energy Supply's competitive non-trading and trading activities. PPL Energy Supply's non-trading energy business is managed on a geographic basis that is aligned with its generation fleet. The following table shows PPL Energy Supply's non-GAAP financial measure, Unregulated Gross Energy Margins, for the periods ended December 31, as well as the change between periods. The factors that gave rise to the changes are described below the table.

	2011	2010	Change	2010	2009	Change
Non-trading						
Eastern U.S.	$ 2,018	$ 2,429	$ (411)	$ 2,429	$ 1,391	$ 1,038
Western U.S.	349	339	10	339	323	16
Net energy trading	(2)	2	(4)	2	17	(15)
Total	$ 2,365	$ 2,770	$ (405)	$ 2,770	$ 1,731	$ 1,039

Unregulated Gross Energy Margins

Eastern U.S.

The changes in Eastern U.S. non-trading margins were:

	2011 vs. 2010	2010 vs. 2009
Baseload energy, capacity and ancillaries (a)	$ (199)	$ 1,143
Coal and hydroelectric generation volume (b)	(72)	21
Impact of non-core generation facilities sold in the first quarter of 2011	(48)	
Monetization of certain deals that rebalanced the business and portfolio	(41)	(48)
Higher coal prices	(40)	(38)
Margins on the intermediate and peaking units (c)	(34)	17
Nuclear generation volume (d)	(29)	(32)
Higher nuclear fuel prices	(10)	(8)
Retail electric business	(7)	23
Full-requirement sales contracts (e)	70	(46)
Other	(1)	6
	$ (411)	$ 1,038

(a) Baseload energy and capacity prices were lower in 2011 than 2010; however, prices in 2010 for baseload generation were significantly higher than prices realized under the PLR contract with PPL Electric that expired at the end of 2009.
(b) Volumes were lower in 2011 compared with 2010 as a result of unplanned outages, economic reductions in coal unit output and the sale of our interest in Safe Harbor Water Power Corporation. Volumes were higher in 2010 compared with 2009 as a result of planned overhauls.
(c) Lower margins in 2011 compared with 2010 were driven by lower capacity prices, partially offset by higher generation volumes in the first half of 2011. Higher margins in 2010 compared with 2009 were due to higher energy and capacity prices.
(d) Volumes were lower in 2011 compared with 2010 primarily as a result of the dual-unit turbine blade replacement outages beginning in May 2011. Volumes were lower in 2010 compared with 2009 primarily due to an unplanned outage in July 2010.
(e) Higher margins in 2011 compared with 2010 were driven by contracts monetized in 2010 and lower customer migration to alternative suppliers in 2011. Lower margins in 2010 compared with 2009 were driven by lower customer demand and higher customer migration to alternative suppliers.

Western U.S.

Western U.S. non-trading margins were higher in 2011 compared with 2010, due to higher net wholesale prices of $58 million, partially offset by lower wholesale volumes of $45 million, primarily due to economic reductions in coal unit output.

Western U.S. non-trading margins were higher in 2010 compared with 2009, primarily due to higher net wholesale prices of $11 million and higher wholesale volumes of $14 million, due to unplanned outages in 2009.

Net Energy Trading Margins

Net energy trading margins decreased during 2011 compared with 2010, as a result of lower margins on power positions of $16 million, partially offset by higher margins on gas positions of $12 million.

Net energy trading margins decreased during 2010 compared with 2009, as a result of lower margins on power and gas positions of $40 million, partially offset by higher trading margins related to FTRs of $22 million.

Other Operation and Maintenance

The changes in other operation and maintenance expenses were due to:

	2011 vs. 2010	2010 vs. 2009
Montana hydroelectric litigation (a)	$ (121)	$ 48
Susquehanna nuclear plant costs (b)	30	31
Uncollectible accounts (c)	15	3
Costs at Western fossil and hydroelectric plants (d)	15	(7)
Costs at Eastern fossil and hydroelectric plants (e)	20	(4)
Impacts from emission allowances (f)	(15)	(16)
Workforce reductions (g)		(10)
Other	6	13
Total	$ (50)	$ 58

(a) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. As a result, in the first quarter of 2010, PPL Montana recorded a charge of $56 million, representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. The portion of the total charge recorded to "Other operation and maintenance" on the Statement of Income totaled $49 million. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the U.S. Supreme Court granted PPL Montana's petition. In February 2012, the U.S. Supreme Court overturned the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. As a result, PPL Montana reversed its total loss accrual of $89 million, which had been recorded prior to the U.S. Supreme Court decision, of which $75 million was credited to "Other operation and maintenance" on the Statement of Income.

(b) 2011 compared with 2010 was higher primarily due to $11 million of higher payroll-related costs, $10 million of higher outage costs and $8 million of higher costs from the refueling outage. 2010 compared with 2009 was higher primarily due to $10 million of higher payroll-related costs, $8 million of higher outage costs and $5 million higher project costs.

(c) 2011 compared with 2010, was higher primarily due to SMGT filing for protection under Chapter 11 of the U.S. Bankruptcy Code, $11 million of damages billed to SMGT were fully reserved.

(d) 2011 compared with 2010 was higher primarily due to $11 million of lower insurance proceeds. 2010 compared with 2009 was lower primarily due to $13 million of higher insurance proceeds.

(e) 2011 compared with 2010 was higher primarily due to plant outage costs of $13 million.

(f) 2011 compared with 2010 was lower due to lower impairment charges of sulfur dioxide emission allowances. 2010 compared with 2009 was lower primarily due to lower impairment charges of sulfur dioxide emission allowances.

(g) Represents the charge related to the February 2009, announcement of workforce reductions that resulted in the elimination of certain management and staff positions.

Depreciation

Depreciation increased by $8 million in 2011 compared with 2010, primarily due to PP&E additions. Depreciation increased by $40 million in 2010 compared with 2009. Of the $40 million increase, $21 million was primarily due to the completion of environmental projects at Brunner Island in 2009 and 2010.

Taxes, Other Than Income

Taxes, other than income increased by $25 million in 2011 compared with 2010 primarily due to $16 million of higher Pennsylvania gross receipts tax expense as a result of an increase in retail electricity sales by PPL EnergyPlus. This tax is included in "Unregulated Gross Energy Margins." The increase also includes $8 million of higher Pennsylvania capital stock tax due in part to the expiration of the Keystone Opportunity Zone credit in 2010 and an agreed to change in a capital stock tax filing position with the state.

Taxes, other than income increased by $17 million in 2010 compared with 2009, primarily due to an increase in retail electricity sales by PPL EnergyPlus.

Other Income (Expense) - net

The $22 million decrease in other income (expense) - net in 2010 compared with 2009 was primarily attributable to PPL Energy Supply's $25 million gain on tender offers to purchase up to $250 million aggregate principal amount of certain of its outstanding senior notes including net gains on related cash flow hedges that were reclassified from AOCI into earnings in 2009.

Other-Than-Temporary Impairments

Other-than-temporary impairments decreased by $15 million in 2010 compared with 2009, primarily due to stronger returns on NDT investments caused by market fluctuations within the financial markets.

Interest Income from Affiliates

Interest income from affiliates increased by $7 million in 2010 compared with 2009, primarily due to loans to LKE subsidiaries, which have been fully repaid as of December 31, 2010.

Interest Expense

The changes in interest expense were due to:

	2011 vs. 2010	2010 vs. 2009
Capitalized interest	$ (16)	$ 12
Net amortization of debt discounts, premiums and issuance costs	(3)	12
Montana hydroelectric litigation (a)	(20)	10
Short-term debt interest expense	7	
Other	(2)	(2)
Total	$ (34)	$ 32

(a) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. As a result, in the first quarter of 2010, PPL Montana recorded $7 million of interest expense on rental compensation covered by the court decision. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the U.S. Supreme Court granted PPL Montana's petition. Oral argument was held in December 2011. PPL Montana continued to accrue interest expense on the rental compensation covered by the court decision. In February 2012, the U.S. Supreme Court overturned the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. As a result, PPL Montana reversed its total loss accrual of $89 million, which had been recorded prior to the U.S. Supreme Court decision, of which $14 million was credited to "Interest Expense" on the Statement of Income.

Income Taxes

The changes in income taxes were due to:

	2011 vs. 2010	2010 vs. 2009
Higher (lower) pre-tax book income	$ 134	$ 356
State valuation allowance adjustments (a)	74	(52)
State deferred tax rate change (b)	(26)	
Federal income tax credits	(2)	(10)
Domestic manufacturing deduction (c) (d)	11	(8)
Federal and state tax reserve adjustments	13	(8)
Federal and state tax return adjustments (d)	(16)	(29)
Health Care Reform (e)	(5)	5
Other	1	4
	$ 184	$ 258

(a) During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for Federal income tax purposes. Due to the decrease in taxable income related to bonus depreciation and a decrease in projected future taxable income, PPL Energy Supply recorded $22 million in state deferred income tax expense related to deferred tax valuation allowances during 2011.

Pennsylvania H.B. 1531, enacted in October 2009, increased the net operating loss limitation to 20% of taxable income for tax years beginning in 2010. Based on the projected revenue increase related to the expiration of the generation rate caps, PPL Energy Supply recorded a $52 million state deferred income tax benefit related to the reversal of deferred tax valuation allowances over the remaining carry forward period of the net operating losses during 2010.

(b) During 2011, PPL Energy Supply completed the sale of certain non-core generating assets (see Note 9 to the Financial Statements for additional information). Due to changes in state apportionment resulting in the reduction in the future estimated state tax rate, PPL Energy Supply recorded a deferred tax benefit related to its December 31, 2011 state deferred tax liabilities.

(c) During 2010, PPL Energy Supply recorded an increase in tax benefits related to domestic manufacturing deductions due to an increase in domestic taxable income resulting from the expiration of Pennsylvania generation rate caps in 2010. In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation deduction related to bonus depreciation significantly reduced the tax benefits related to domestic manufacturing deductions during 2010 and eliminated the tax benefit in 2011.

(d) During 2011, PPL recorded $22 million in federal and state tax benefits related to the filing of the 2010 federal and state income tax returns. Of that amount, $7 million in tax benefits relate to an additional domestic manufacturing deduction resulting from revised bonus depreciation amounts.

During 2009, PPL Energy Supply received consent from the IRS to change its method of accounting for certain expenditures for tax purposes. PPL Energy Supply deducted the resulting IRC Sec. 481 adjustment on its 2008 federal income tax return and recorded a $21 million adjustment to federal and state income tax expense resulting from the reduction in federal income tax benefits related to the domestic manufacturing deduction and certain state tax benefits related to state net operating losses.

(e) Beginning in 2013, provisions within Health Care Reform eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, PPL Energy Supply recorded deferred income tax expense during 2010.

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

Discontinued Operations

Income (Loss) from Discontinued Operations (net of income taxes) decreased by $240 million in 2011 compared with 2010 and by $21 million in 2010 compared with 2009. The decrease in 2011 compared with 2010 was primarily due to the presentation of PPL Global as Discontinued Operations as a result of the January 2011 distribution by PPL Energy Supply of its membership interest in PPL Global to its parent, PPL Energy Funding. In 2011, the results of PPL Global are no longer consolidated within PPL Energy Supply. The decrease in 2010 compared with 2009 was primarily attributable to after-tax impairment charges recorded in 2010 totaling $62 million related to assets associated with certain non-core generation facilities, which were sold in 2011, that were written down to their estimated fair value (less cost to sell). The impacts of these charges were offset by the net results of certain other discontinued operations. See Note 9 to the Financial Statements for additional information.

Financial Condition

Liquidity and Capital Resources

PPL Energy Supply expects to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents and its credit facilities.

PPL Energy Supply's cash flows from operations and access to cost-effective bank and capital markets are subject to risks and uncertainties including, but not limited to:

- changes in electricity, fuel and other commodity prices;
- operational and credit risks associated with selling and marketing products in the wholesale power markets;
- potential ineffectiveness of the trading, marketing and risk management policy and programs used to mitigate PPL Energy Supply's risk exposure to adverse changes in electricity and fuel prices, interest rates and counterparty credit;
- reliance on transmission and distribution facilities that PPL Energy Supply does not own or control to deliver its electricity and natural gas;
- unavailability of generating units (due to unscheduled or longer-than-anticipated generation outages, weather and natural disasters) and the resulting loss of revenues and additional costs of replacement electricity;
- costs of compliance with existing and new environmental laws and with new security and safety requirements for nuclear facilities;
- any adverse outcome of legal proceedings and investigations with respect to PPL Energy Supply's current and past business activities;
- deterioration in the financial markets that could make obtaining new sources of bank and capital markets funding more difficult and more costly; and
- a downgrade in PPL Energy Supply's or its rated subsidiaries' credit ratings that could adversely affect their ability to access capital and increase the cost of credit facilities and any new debt.

See "Item 1A. Risk Factors" for further discussion of risks and uncertainties affecting PPL Energy Supply's cash flows.

At December 31, PPL Energy Supply had the following:

	2011	2010	2009
Cash and cash equivalents	$ 379	$ 661	$ 245
Short-term debt	$ 400	$ 531	$ 639

The changes in PPL Energy Supply's cash and cash equivalents position resulted from:

	2011	2010	2009
Net cash provided by operating activities	$ 776	$ 1,840	$ 1,413
Net cash provided by (used in) investing activities	(668)	(825)	(551)
Net cash provided by (used in) financing activities	(390)	(612)	(1,081)
Effect of exchange rates on cash and cash equivalents		13	
Net Increase (Decrease) in Cash and Cash Equivalents	$ (282)	$ 416	$ (219)

Operating Activities

Net cash provided by operating activities decreased by 58%, or $1.1 billion, in 2011 compared with 2010. This was primarily due to lower gross energy margins of $240 million, after-tax, proceeds from monetizing certain full-requirements sales contracts in 2010 of $249 million, a reduction in cash from counter party collateral of $172 million, increases in other operating outflows of $200 million (including higher operation and maintenance expenses and defined benefits funding of $123 million) and the loss of operating cash from PPL Global ($203 million for 2010). In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 9 to the Financial Statements for additional information on the distribution.

Net cash provided by operating activities increased by 30%, or $427 million, in 2010 compared with 2009. The expiration of the long-term power purchase agreements between PPL Electric and PPL EnergyPlus at the end of 2009 enabled PPL EnergyPlus to sell power at higher market prices and had a positive impact on net income, and specifically on "unregulated gross energy margins" which increased over $600 million, after-tax, in 2010 compared with 2009, and therefore, was the primary driver to the above increase. The positive impact of additional earnings was partially offset by a reduction in the amount of counterparty collateral received and by additional defined benefit plan contributions. In addition, changes in working capital in 2010 compared with 2009 offset the $300 million impact of cash collateral received from PPL Electric in 2009 as discussed below.

A significant portion of PPL Energy Supply's operating cash flows is derived from its baseload generation business activities. PPL Energy Supply employs a formal hedging program for its competitive baseload generation fleet, the primary objective of which is to provide a reasonable level of near-term cash flow and earnings certainty while preserving upside potential of power price increases over the medium term. See Note 19 to the Financial Statements for further discussion. Despite PPL Energy Supply's hedging practices, future cash flows from operating activities are influenced by commodity prices and therefore, will fluctuate from period to period.

PPL Energy Supply's contracts for the sale and purchase of electricity and fuel often require cash collateral or other credit enhancements, or reductions or terminations of a portion of the entire contract through cash settlement, in the event of a downgrade of PPL Energy Supply's or its subsidiary's credit ratings or adverse changes in market prices. For example, in addition to limiting its trading ability, if PPL Energy Supply's or its subsidiary's ratings were lowered to below "investment grade" and there was a 10% adverse movement in energy prices, PPL Energy Supply estimates that, based on its December 31, 2011 positions, it would have had to post additional collateral of approximately $351 million with respect to electricity and fuel contracts. PPL Energy Supply has in place risk management programs that are designed to monitor and manage its exposure to volatility of cash flows related to changes in energy and fuel prices, interest rates, foreign currency exchange rates, counterparty credit quality and the operating performance of its generating units.

Investing Activities

The primary use of cash in investing activities is capital expenditures. See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2012 through 2016.

Net cash used in investing activities decreased $157 million in 2011 compared with 2010, primarily as a result of a decrease of $348 million in capital expenditures and a $219 million increase in the proceeds received from the sale of businesses, which are discussed in Note 9 to the Financial Statements. The decrease in cash used in investing activities from the above items was partially offset by an increase of $198 million related to notes receivable from affiliates and $212 million from changes in restricted cash and cash equivalents.

Net cash used in investing activities increased $274 million in 2010 compared with 2009, primarily as a result of a decrease of $154 million from proceeds from the sale of other investments, a change of $135 million from restricted cash and cash equivalents, and an increase of $102 million in capital expenditures. The increase in cash used in investing activities from the above items was partially offset by $81 million in proceeds received from the sale of businesses, which are discussed in Note 9 to the Financial Statements, and a change of $28 million in other investing activities.

In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to its parent, PPL Energy Funding. See Note 9 to the Financial Statements for additional information. Excluding PPL Global, PPL Energy Supply's net cash used in investing activities was $544 million and $308 million for 2010 and 2009.

Financing Activities

Net cash used in financing activities was $390 million in 2011 compared with $612 million in 2010 and $1.1 billion in 2009. The decrease from 2010 to 2011 primarily reflects lower net distributions to Member, partially offset by lower net issuances of long-term debt and the distribution of cash included in the net assets of PPL Global to PPL Energy Funding. The change from 2009 to 2010 primarily reflects more long-term debt issuances, increased contributions from and distributions to Member, and less short-term borrowings in 2010.

In 2011, cash used in financing activities primarily consisted of a $325 million distribution of cash included in the net assets of PPL Global to PPL Energy Funding, $316 million in distributions to Member, and net debt retirements of $200 million, partially offset by $461 million in contributions from Member.

In 2010, cash used in financing activities primarily consisted of $4.7 billion in distributions to Member, partially offset by $3.6 billion in contributions from Member and net debt issuances of $509 million. The distributions to and contributions from Member during 2010 primarily relate to the funds received by PPL in June 2010 from the issuance of common stock and 2010 Equity Units. These funds were invested by a subsidiary of PPL Energy Supply until they were returned to its Member in October 2010 to be available to partially fund PPL's acquisition of LKE and pay certain acquisition-related fees and expenses.

In 2009, cash used in financing activities primarily consisted of $943 million in distributions to Member and net debt retirements of $177 million, partially offset by $50 million in contributions from Member.

See "Forecasted Sources of Cash" for a discussion of PPL Energy Supply's plans to issue debt securities, as well as a discussion of credit facility capacity available to PPL Energy Supply. Also see "Forecasted Uses of Cash" for information regarding maturities of PPL Energy Supply's long-term debt.

PPL Energy Supply's debt financing activity in 2011 was:

	Issuances (a)	Retirements
PPL Energy Supply Senior Unsecured Notes	$ 500	$ (750)
PPL Energy Supply short-term debt, net increase	50	
Total	$ 550	$ (750)
Net decrease	$ (200)	

(a) Issuances are net of pricing discounts, where applicable and exclude the impact of debt issuance costs.

See Note 7 to the Financial Statements for more detailed information regarding PPL Energy Supply's financing activities in 2011.

Forecasted Sources of Cash

PPL Energy Supply expects to continue to have sufficient sources of cash available in the near term, including various credit facilities, operating leases and contributions from Member.

Credit Facilities

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

	Committed Capacity	Borrowed	Letters of Credit Issued and Commercial Paper Backup	Unused Capacity
Syndicated Credit Facility (a)	$ 3,000	$	$ 541	$ 2,459
Letter of Credit Facility	200	n/a	89	111
Total PPL Energy Supply Credit Facilities (b)	$ 3,200	$	$ 630	$ 2,570

(a) In October 2011, PPL Energy Supply amended its Syndicated Credit Facility. The amendment included extending the expiration date from December 2014 to October 2016. Under this facility, PPL Energy Supply continues to have the ability to make cash borrowings and to request the lenders to issue letters of credit. This facility contains a financial covenant requiring PPL Energy Supply's debt to total capitalization not to exceed 65%, as calculated in accordance with the facility, and other customary covenants.

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

The commitments under PPL Energy Supply's credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 11% of the total committed capacity.

In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to its parent, PPL Energy Funding. See Note 9 to the Financial Statements for additional information.

In addition to the financial covenants noted above, the credit agreements governing the above credit facilities contain various other covenants. Failure to comply with the covenants after applicable grace periods could result in acceleration of repayment of borrowings and/or termination of the agreements. PPL Energy Supply monitors compliance with the covenants on a regular basis. At December 31, 2011, PPL Energy Supply was in compliance with these covenants. At this time, PPL Energy Supply believes that these covenants and other borrowing conditions will not limit access to these funding sources.

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

Commercial Paper

In October 2011, PPL Energy Supply re-activated its $500 million commercial paper program to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At December 31, 2011, PPL Energy Supply had $400 million of commercial paper outstanding at a weighted-average interest rate of approximately 0.53%.

Operating Leases

PPL Energy Supply and its subsidiaries also have available funding sources that are provided through operating leases. PPL Energy Supply's subsidiaries lease office space, land, buildings and certain equipment. These leasing structures provide PPL Energy Supply additional operating and financing flexibility. The operating leases contain covenants that are typical for these agreements, such as maintaining insurance, maintaining corporate existence and timely payment of rent and other fees.

PPL Energy Supply, through its subsidiary PPL Montana, leases a 50% interest in Colstrip Units 1 and 2 and a 30% interest in Unit 3, under four 36-year, non-cancelable operating leases. These operating leases are not recorded on PPL Energy Supply's Balance Sheets. The leases place certain restrictions on PPL Montana's ability to incur additional debt, sell assets and declare dividends. At this time, PPL Energy Supply believes that these restrictions will not limit access to these funding sources or cause acceleration or termination of the leases.

See Note 11 to the Financial Statements for further discussion of the operating leases.

Long-term Debt Securities and Contributions from Member

PPL Energy Supply does not currently plan to issue long-term debt securities in 2012.

From time to time, PPL Energy Supply's Member, PPL Energy Funding, makes capital contributions to PPL Energy Supply. PPL Energy Supply uses these contributions for general corporate purposes.

Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, PPL Energy Supply currently expects to incur future cash outflows for capital expenditures, various contractual obligations, distributions to its Member and possibly the purchase or redemption of a portion of its debt securities.

Capital Expenditures

The table below shows PPL Energy Supply's current capital expenditure projections for the years 2012 through 2016.

	Projected				
	2012	**2013**	**2014**	**2015**	**2016**
Construction expenditures (a) (b)					
Generating facilities	$ 528	$ 357	$ 262	$ 234	$ 285
Environmental	83	90	66	49	30
Other	37	40	36	33	32
Total Construction Expenditures	648	487	364	316	347
Nuclear fuel (c)	160	172	170	173	174
Total Capital Expenditures	$ 808	$ 659	$ 534	$ 489	$ 521

(a) Construction expenditures include capitalized interest, which is expected to be approximately $134 million for the years 2012 through 2016.
(b) Includes expenditures for certain intangible assets.
(c) Nuclear fuel expenditures include capitalized interest, which is expected to be approximately $25 million for the years 2012 through 2016.

PPL Energy Supply's capital expenditure projections for the years 2012 through 2016 total approximately $3.0 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes projected costs related to the planned 191 MW of incremental capacity increases. See Note 8 to the Financial Statements for information regarding the significant development projects.

PPL Energy Supply plans to fund its capital expenditures in 2012 with cash on hand and cash from operations.

Contractual Obligations

PPL Energy Supply has assumed various financial obligations and commitments in the ordinary course of conducting its business. At December 31, 2011, the estimated contractual cash obligations of PPL Energy Supply were:

	Total	2012	2013 - 2014	2015 - 2016	After 2016
Long-term Debt (a)	$ 3,023		$ 1,037	$ 650	$ 1,336
Interest on Long-term Debt (b)	1,206	$ 178	300	185	543
Operating Leases (c)	709	104	218	149	238
Purchase Obligations (d)	4,010	1,014	1,217	681	1,098
Other Long-term Liabilities Reflected on the Balance Sheet under GAAP (e) (f)	74	74			
Total Contractual Cash Obligations	$ 9,022	$ 1,370	$ 2,772	$ 1,665	$ 3,215

(a) Reflects principal maturities only based on stated maturity dates, except for the 5.70% REset Put Securities (REPS). See Note 7 to the Financial Statements for a discussion of the remarketing feature related to the REPS, as well as discussion of variable-rate remarketable bonds. PPL Energy Supply does not have any significant capital lease obligations.
(b) Assumes interest payments through stated maturity, except for the REPS, for which interest is reflected to the put date. The payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated.
(c) See Note 11 to the Financial Statements for additional information.
(d) The amounts include agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Primarily includes PPL Energy Supply's purchase obligations of electricity, coal, nuclear fuel and limestone as well as certain construction expenditures, which are also included in the Capital Expenditures table presented above. Financial swaps and open purchase orders that are provided on demand with no firm commitment are excluded from the amounts presented. In prior years, PPL included certain energy purchase obligations based on forecasted amounts to be purchased. The amounts presented herein are based on actual contract terms.
(e) The amounts represent contributions made or committed to be made for 2012 for PPL's and PPL Energy Supply's U.S. pension plans. See Note 13 to the Financial Statements for a discussion of expected contributions.
(f) At December 31, 2011, total unrecognized tax benefits of $28 million were excluded from this table as PPL Energy Supply cannot reasonably estimate the amount and period of future payments. See Note 5 to the Financial Statements for additional information.

Distributions to Member

From time to time, as determined by its Board of Managers, PPL Energy Supply makes return of capital distributions to its Member. In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Supply's parent at a book value of approximately $1.3 billion, which included $325 million of cash and cash equivalents. See Note 9 to the Financial Statements for additional information.

Purchase or Redemption of Debt Securities

PPL Energy Supply will continue to evaluate its outstanding debt securities and may decide to purchase or redeem these securities depending upon prevailing market conditions and available cash.

Rating Agency Decisions

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

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

As a result of the passage of the Dodd-Frank Act PPL Energy Supply is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to PPL Energy Supply's ratings, but without stating what ratings have been assigned to PPL Energy Supply or its subsidiaries, or their securities. The ratings assigned by the rating agencies to PPL Energy Supply and its subsidiaries and their respective securities may be found, without charge, on each of the respective ratings agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

The rating agencies took the following actions related to PPL Energy Supply and its subsidiaries in 2011.

Following the announcement of PPL's then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

- Moody's affirmed its ratings for PPL Energy Supply;
- S&P revised the outlook and lowered the issuer and senior unsecured ratings of PPL Energy Supply; and
- Fitch affirmed its ratings for PPL Energy Supply.

In April 2011, following the completion of PPL's acquisition of WPD Midlands, S&P revised the outlook and affirmed its ratings for PPL Energy Supply.

In May 2011, Fitch affirmed its rating and maintained its outlook for PPL Montana's Pass Through Certificates due 2020.

In September 2011, Moody's affirmed its senior unsecured debt rating and outlook for PPL Energy Supply.

Also in September 2011, S&P assigned a short-term rating to PPL Energy Supply's commercial paper program.

In October 2011, Moody's and Fitch also assigned a short-term rating to PPL Energy Supply's commercial paper program in support of PPL Energy Supply's re-opening of the program.

In November 2011, Fitch affirmed its rating and revised its outlook to negative from stable for PPL Montana's Pass Through Certificates due 2020.

In December 2011, Fitch affirmed the Issuer Default Ratings and individual security ratings of PPL Energy Supply.

In January 2012, S&P affirmed its rating and revised its outlook to stable from positive for PPL Montana's Pass Through Certificates due 2020.

Ratings Triggers

PPL Energy Supply has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements and interest rate instruments, which contain provisions requiring PPL Energy Supply to post additional collateral, or permit the counterparty to terminate the contract, if PPL Energy Supply's credit rating were to fall below investment grade. See Note 19 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at December 31, 2011. At December 31, 2011, if PPL Energy Supply's credit rating had been below investment grade, PPL Energy Supply would have been required to prepay or post an additional $391 million of collateral to counterparties for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations and interest rate contracts.

Guarantees for Subsidiaries

PPL Energy Supply guarantees certain consolidated affiliate financing arrangements that enable certain transactions. Some of the guarantees contain financial and other covenants that, if not met, would limit or restrict the consolidated affiliates' access to funds under these financing arrangements, require early maturity of such arrangements or limit the consolidated affiliates' ability to enter into certain transactions. At this time, PPL Energy Supply believes that these covenants will not limit access to relevant funding sources. See Note 15 to the Financial Statements for additional information about guarantees.

Off-Balance Sheet Arrangements

PPL Energy Supply has entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 15 to the Financial Statements for a discussion of these agreements.

Risk Management - Energy Marketing & Trading and Other

Market Risk

See Notes 1, 18, and 19 to the Financial Statements for information about PPL Energy Supply's risk management objectives, valuation techniques and accounting designations.

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

Commodity Price Risk (Non-trading)

PPL Energy Supply segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. The fair value of economic positions at December 31, 2011 and 2010 was a net liability of $63 million and $389 million. See Note 19 to the Financial Statements for additional information on hedge and economic activity.

To hedge the impact of market price volatility on PPL Energy Supply's energy-related assets, liabilities and other contractual arrangements, PPL Energy Supply both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL Energy Supply's non-trading commodity derivative contracts mature at various times through 2019.

The following table sets forth the changes in net fair value of PPL Energy Supply's non-trading commodity derivative contracts. See Notes 18 and 19 to the Financial Statements for additional information.

	Gains (Losses) 2011	Gains (Losses) 2010
Fair value of contracts outstanding at the beginning of the period	$ 958	$ 1,280
Contracts realized or otherwise settled during the period	(523)	(490)
Fair value of new contracts entered into during the period (a)	13	(5)
Changes in fair value attributable to changes in valuation techniques (b)		(23)
Other changes in fair value	634	196
Fair value of contracts outstanding at the end of the period	$ 1,082	$ 958

(a) Represents the fair value of contracts at the end of the quarter of their inception.
(b) In June 2010, PPL Energy Supply received market bids for certain full-requirement sales contracts that were monetized in early July. See Note 19 to the Financial Statements for additional information. At June 30, 2010, these contracts were valued based on the bids received (the market approach). In prior periods, the fair value of these contracts was measured using the income approach.

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

	Net Asset (Liability)				
Source of Fair Value	**Maturity Less Than 1 Year**	**Maturity 1-3 Years**	**Maturity 4-5 Years**	**Maturity in Excess of 5 Years**	**Total Fair Value**
Prices quoted in active markets for identical instruments	$ 1				$ 1
Prices based on significant other observable inputs	713	$ 342	$ (1)	$ 15	1,069
Prices based on significant unobservable inputs	13	(3)	2		12
Fair value of contracts outstanding at the end of the period	$ 727	$ 339	$ 1	$ 15	$ 1,082

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

Commodity Price Risk (Trading)

PPL Energy Supply's trading commodity derivative contracts mature at various times through 2015. The following table sets forth changes in the net fair value of PPL Energy Supply's trading commodity derivative contracts. See Notes 18 and 19 to the Financial Statements for additional information.

	Gains (Losses)	
	2011	**2010**
Fair value of contracts outstanding at the beginning of the period	$ 4	$ (6)
Contracts realized or otherwise settled during the period	(14)	(12)
Fair value of new contracts entered into during the period (a)	10	39
Other changes in fair value	(4)	(17)
Fair value of contracts outstanding at the end of the period	$ (4)	$ 4

(a) Represents the fair value of contracts at the end of the quarter of their inception.

Unrealized losses of approximately $2 million will be reversed over the next three months as the transactions are realized.

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

	Net Asset (Liability)				
Source of Fair Value	**Maturity Less Than 1 Year**	**Maturity 1-3 Years**	**Maturity 4-5 Years**	**Maturity in Excess of 5 Years**	**Total Fair Value**
Prices quoted in active markets for identical instruments	$ 1				$ 1
Prices based on significant other observable inputs	(18)	$ 11	$ 1		(6)
Prices based on significant unobservable inputs	1				1
Fair value of contracts outstanding at the end of the period	$ (16)	$ 11	$ 1		$ (4)

VaR Models

PPL Energy Supply utilizes a VaR model to measure commodity price risk in unregulated gross energy margins for its non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. PPL Energy Supply calculates VaR using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's conservative hedging program, PPL's non-trading VaR exposure is expected to be limited in the short term. At December 31, 2011 and December 31, 2010, the VaR for PPL Energy Supply's portfolios using end-of-month results for the period was as follows.

	Trading VaR		Non-Trading VaR	
	2011	**2010**	**2011**	**2010**
95% Confidence Level, Five-Day Holding Period				
Period End	$ 1	$ 1	$ 6	$ 5
Average for the Period	3	4	5	7
High	6	9	7	12
Low	1	1	4	4

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

Interest Rate Risk

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

At December 31, 2011 and 2010, PPL Energy Supply's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL Energy Supply is also exposed to changes in the fair value of its debt portfolio. PPL Energy Supply estimated that a 10% decrease in interest rates at December 31, 2011 would increase the fair value of its debt portfolio by $53 million, compared with $198 million at December 31, 2010.

PPL Energy Supply had the following interest rate hedges outstanding at:

	December 31, 2011			December 31, 2010		
	Exposure Hedged	Fair Value, Net - Asset (a)	Effect of a 10% Adverse Movement in Rates (b)	Exposure Hedged	Fair Value, Net - Asset (a)	Effect of a 10% Adverse Movement in Rates (b)
Cash flow hedges						
Interest rate swaps (c)						
Cross-currency swaps (d)				$ 302	$ 35	$ (18)
Fair value hedges						
Interest rate swaps (e)						

(a) Includes accrued interest, if applicable.
(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
(c) PPL and PPL Energy Supply utilize various risk management instruments to reduce PPL Energy Supply's exposure to the expected future cash flow variability of PPL Energy Supply's debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL Energy Supply is exposed to changes in the fair value of these instruments, any changes in the fair value of such cash flow hedges are recorded in equity. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in interest rates.
(d) Represents cross-currency swaps used by PPL WW to hedge the interest payments and principal of its U.S. dollar-denominated senior notes with maturity dates ranging from December 2017 to December 2028. In 2010, these swaps were part of PPL Energy Supply's business. As a result of the distribution of PPL Energy Supply's membership interest in PPL Global to PPL Energy Funding, effective January 2011, these swaps are no longer part of PPL Energy Supply's business. While PPL Energy Supply was exposed to changes in the fair value of these instruments, any change in the fair value of these instruments was recorded in equity and reclassified into earnings in the same period during which the item being hedged affected earnings. Sensitivity represents a 10% adverse movement in both interest rates and foreign currency exchange rates.
(e) PPL and PPL Energy Supply utilize various risk management instruments to adjust the mix of fixed and floating interest rates in PPL Energy Supply's debt portfolio. The change in fair value of these instruments, as well as the offsetting change in the value of the hedged exposure of the debt, is reflected in earnings. Sensitivities represent a 10% adverse movement in interest rates.

Foreign Currency Risk

PPL and PPL Energy Supply have adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments, as well as to protect against foreign currency translation risk of expected earnings.

Prior to 2011, PPL Energy Supply's exposure to foreign currency risk was through its investments in U.K. affiliates. In addition, PPL Energy Supply's domestic operations may make purchases of equipment in currencies other than U.S. dollars. See Note 1 to the Financial Statements for additional information regarding foreign currency translation.

PPL and PPL Energy Supply previously entered into contracts to protect the value of a portion of PPL Energy Supply's net investment in WPD and to economically hedge anticipated earnings denominated in GBP. In 2010, these contracts were included in PPL Energy Supply's business. As a result of the distribution of PPL Energy Supply's membership interest in PPL Global to PPL Energy Funding, effective January 2011, these contracts are no longer included in PPL Energy Supply's business.

At December 31, 2011, PPL Energy Supply did not have any foreign currency hedges outstanding. At December 31, 2010, PPL Energy Supply had the following foreign currency hedges outstanding:

	Exposure Hedged		Fair Value, Net - Asset (Liability)		Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	
Net investment hedges (b)	£	35	$	7	$	(5)
Economic hedges (c)		89		4		(10)

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
(b) To protect the value of a portion of PPL Energy Supply's net investment in WPD, PPL executed forward contracts to sell GBP.
(c) To economically hedge the translation of expected income denominated in GBP to U.S. dollars, PPL entered into a combination of average rate forwards and average rate options to sell GBP.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the Susquehanna nuclear plant. At December 31, 2011, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on PPL Energy Supply's Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its nuclear decommissioning trust policy statement. At December 31, 2011, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated $43 million reduction in the fair value of the trust assets, compared with $45 million at December 31, 2010. See Notes 18 and 23 to the Financial Statements for additional information regarding the NDT funds.

Defined Benefit Plans - Securities Price Risk

See "Application of Critical Accounting Policies - Defined Benefits" for additional information regarding the effect of securities price risk on plan assets.

Credit Risk

Credit risk is the risk that PPL Energy Supply would incur a loss as a result of nonperformance by counterparties of their contractual obligations. PPL Energy Supply maintains credit policies and procedures with respect to counterparty credit (including requirements that counterparties maintain specified credit ratings) and requires other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, PPL Energy Supply has concentrations of suppliers and customers among electric utilities, financial institutions and other energy marketing and trading companies. These concentrations may impact PPL Energy Supply's overall exposure to credit risk, positively or negatively, as counterparties may be similarly affected by changes in economic, regulatory or other conditions.

PPL Energy Supply includes the effect of credit risk on its fair value measurements to reflect the probability that a counterparty will default when contracts are out of the money (from the counterparty's standpoint). In this case, PPL Energy Supply would have to sell into a lower-priced market or purchase from a higher-priced market. When necessary, PPL Energy Supply records an allowance for doubtful accounts to reflect the probability that a counterparty will not pay for deliveries PPL Energy Supply has made but not yet billed, which are reflected in "Unbilled revenues" on the Balance Sheets. PPL Energy Supply also has established a reserve with respect to certain receivables from SMGT, which is reflected in accounts receivable on the Balance Sheets. See Note 15 to the Financial Statements for additional information.

See "Overview" in this Item 7 and Notes 16, 18 and 19 to the Financial Statements for additional information on credit concentration and credit risk.

Foreign Currency Translation

As noted previously, in January 2011, PPL Energy Supply distributed its interest in PPL Global to its parent, PPL Energy Funding. As a result, PPL Energy Supply no longer consolidates any foreign subsidiaries and has no foreign currency translation component within AOCI. The value of the British pound sterling fluctuates in relation to the U.S. dollar. In 2010, changes in these exchange rates resulted in a foreign currency translation loss of $63 million, which primarily reflected a $180 million reduction to PP&E offset by a reduction of $117 million to net liabilities. In 2009, changes in these exchange rates resulted in a foreign currency translation gain of $106 million, which primarily reflected a $225 million increase in

PP&E offset by an increase of $119 million to net liabilities. The impact of foreign currency translation was recorded in AOCI.

Related Party Transactions

PPL Energy Supply is not aware of any material ownership interests or operating responsibility by senior management of PPL Energy Supply in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with PPL Energy Supply. See Note 16 to the Financial Statements for additional information on related party transactions.

Acquisitions, Development and Divestitures

PPL Energy Supply continuously evaluates potential acquisitions, divestitures and development projects as opportunities arise or are identified. Development projects are continuously reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options.

In 2011, the final phase of the Susquehanna uprate project, a 50 MW Unit 2 uprate, was completed. In addition, incremental capacity increases of 191 MW are currently planned, primarily at existing PPL Energy Supply generating facilities. See "Item 2. Properties - Supply Segment" for additional information.

See Notes 8 and 9 to the Financial Statements for additional information on the more significant activities.

Environmental Matters

Protection of the environment is a priority for PPL Energy Supply and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to PPL Energy Supply's air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc., and may impact the cost for their products or their demand for PPL Energy Supply's services. See "Item 1. Business - Environmental Matters" and Note 15 to the Financial Statements for a discussion of environmental matters.

Competition

See "Competition" under the International Regulated and Supply segments in "Item 1. Business - Segment Information" and "Item 1A. Risk Factors" for a discussion of competitive factors affecting PPL Energy Supply.

New Accounting Guidance

See Notes 1 and 24 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). PPL's senior management has reviewed these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them, with PPL's Audit Committee.

1) Price Risk Management

See "Price Risk Management" in Note 1 to the Financial Statements, as well as "Risk Management - Energy Marketing & Trading and Other" above.

2) Defined Benefits

PPL Energy Supply subsidiaries sponsor and participate in various qualified funded and non-qualified unfunded defined benefit pension plans. PPL Energy Supply subsidiaries also sponsor an unfunded other postretirement benefit plan. PPL Energy Supply records the liability and net periodic defined benefit costs of its plans and the allocated portion of those plans sponsored by PPL Services based on participation in those plans. PPL Energy Supply subsidiaries record an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to OCI. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 13 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

PPL Services and PPL Energy Supply make certain assumptions regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in OCI. These amounts in AOCI are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- Discount Rate - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.

- Expected Return on Plan Assets - Management projects the long-term rates of return on plan assets based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. These projected returns reduce the net benefit costs PPL records currently.

- Rate of Compensation Increase - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.

- Health Care Cost Trend Rate - Management projects the expected increases in the cost of health care.

In selecting a discount rate for their defined benefit plans, PPL Services and PPL Energy Supply start with a cash flow analysis of the expected benefit payment stream for its plans. For 2010, these plan-specific cash flows were matched against a spot-rate yield curve to determine the assumed discount rate. To develop the spot-rate yield curve, the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, served as the base from which those with the lowest and highest yields were eliminated to develop an appropriate subset of bonds from which the ultimate yield curve would be built. At that time, Management believed this plan-specific cash flow matching model represented the best available tool for estimating the discount rate. Beginning in 2011, PPL Services and PPL Energy Supply utilized a new tool that enhanced this plan-specific cash flow matching methodology by primarily matching the plan-specific cash flows against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the same subset of the universe of Aa-rated corporate bonds from which those with the lowest and highest yields were eliminated, similar to the yield curve approach. Individual bonds were then selected based on the timing of each plan's cash flows and parameters were established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed. This process more accurately approximated the process of settlement of the obligations, which better aligns with the objective of selecting the discount rate. At December 31, 2011, PPL Services decreased the discount rate for its U.S. pension plans from 5.41% to 5.07% and PPL Energy Supply decreased the discount rate for its pension plan from 5.47% to 5.12%. PPL Services decreased the discount rate for its other postretirement benefit plan from 5.16% to 4.81% and PPL Energy Supply decreased the discount rate for its other postretirement benefit plan from 4.95% to 4.60%.

The expected long-term rates of return for PPL Services and PPL Energy Supply's U.S. defined benefit pension and other postretirement benefit plans have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. PPL management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption. Based on PPL's change to a liability-driven investment strategy, PPL's U.S. defined benefit pension assets have shifted into a greater proportion of fixed-income investments. Based on this change in investment strategy, at December 31, 2011, PPL Services' and PPL Energy Supply's expected return on plan assets decreased from 7.25% to 7.00% for their U.S. pension plans and decreased from 6.45% to 5.70% for PPL Services' other postretirement benefit plan.

In selecting a rate of compensation increase, PPL Energy Supply considers past experience in light of movements in inflation rates. At December 31, 2011, PPL Services and PPL Energy Supply's rate of compensation decreased from 4.75% to 4.00% for their U.S. plans.

In selecting health care cost trend rates, PPL Services and PPL Energy Supply consider past performance and forecasts of health care costs. At December 31, 2011, PPL Services' and PPL Energy Supply's health care cost trend rates were 8.50% for 2012, gradually declining to 5.50% for 2019.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and OCI. While the charts below reflect either an increase or decrease in each assumption, the inverse of this change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and OCI by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption and does not include income tax effects.

At December 31, 2011, the defined benefit plans were recorded as follows.

Pension liabilities	$ (215)
Other postretirement benefit liabilities	(68)

The following chart reflects the sensitivities in the December 31, 2011 Balance Sheet associated with a change in certain assumptions based on PPL Services' and PPL Energy Supply's primary defined benefit plans.

	Increase (Decrease)		
Actuarial assumption	**Change in assumption**	**Impact on defined benefit liabilities**	**Impact on OCI**
Discount Rate	(0.25)%	$ 46	$ (46)
Rate of Compensation Increase	0.25%	8	(8)
Health Care Cost Trend Rate (a)	1.00%	1	(1)

(a) Only impacts other postretirement benefits.

In 2011, PPL Energy Supply was allocated and recognized net periodic defined benefit costs charged to operating expense of $35 million. This amount represents a $1 million decrease from 2010.

The following chart reflects the sensitivities in the 2011 Statement of Income (excluding income tax effects) associated with a change in certain assumptions based on PPL's and PPL Energy Supply's primary defined benefit plans.

Actuarial assumption	**Change in assumption**	**Impact on defined benefit costs**
Discount Rate	(0.25)%	$ 4
Expected Return on Plan Assets	(0.25)%	3
Rate of Compensation Increase	0.25%	1

3) Asset Impairment

Impairment analyses are performed for long-lived assets that are subject to depreciation or amortization whenever events or changes in circumstances indicate that a long-lived asset's carrying value may not be recoverable. For these long-lived assets classified as held and used, such events or changes in circumstances are:

- a significant decrease in the market price of an asset;
- a significant adverse change in the manner in which an asset is being used or in its physical condition;
- a significant adverse change in legal factors or in the business climate;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset;
- a current period operating or cash flow loss combined with a history of losses or a forecast that demonstrates continuing losses; or
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For a long-lived asset classified as held and used, an impairment is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying value to its estimated fair value. Management must make significant judgments to estimate future cash flows, including the useful lives of long-lived assets, the fair value of the assets and management's intent to use the assets. Alternate courses of action are considered to recover the carrying value of a long-lived asset, and estimated cash flows from the "most likely" alternative are used to assess impairment whenever one alternative is clearly the most likely outcome. If no alternative is clearly the most likely, then a probability-weighted approach is used taking into consideration estimated cash flows from the alternatives. For assets tested for impairment as of the balance sheet date, the estimates of future cash flows used in that test consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of a future sale of the assets. That assessment is not revised based on events that occur after the balance sheet date. Changes in assumptions and estimates could result in significantly different results than those identified and recorded in the financial statements.

For a long-lived asset classified as held for sale, an impairment exists when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If the asset (disposal group) is impaired, an impairment loss is recorded to adjust the carrying amount to its fair value less cost to sell. A gain is recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative impairment previously recognized.

For determining fair value, quoted market prices in active markets are the best evidence. However, when market prices are unavailable, the Registrant considers all valuation techniques appropriate under the circumstances and for which market participant inputs can be obtained. Generally discounted cash flows are used to estimate fair value, which incorporates market participant inputs when available. Discounted cash flows are calculated by estimating future cash flow streams and applying appropriate discount rates to determine the present value of the cash flow streams.

See Note 18 to the Financial Statements for a discussion of impairments related to certain intangible assets in 2011.

Goodwill is tested for impairment at the reporting unit level. PPL Energy Supply's reporting unit has been determined to be at the operating segment level. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying value of the reporting unit may be greater than the unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of.

Goodwill is tested for impairment using a two-step approach. In step one, PPL Energy Supply identifies a potential impairment by comparing the estimated fair value of PPL Energy Supply (the goodwill reporting unit) with its carrying value, including goodwill, on the measurement date. If the estimated fair value exceeds its carrying value, goodwill is not considered impaired. If the carrying value exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.

The second step requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. That is, the estimated fair value is allocated to all of PPL Energy Supply's assets and liabilities as if PPL Energy Supply had been acquired in a business combination and the estimated fair value of PPL Energy Supply was the price paid. The excess of the estimated fair value of PPL Energy Supply over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of PPL Energy Supply's goodwill is then compared with the carrying value of that goodwill. If the carrying value exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying value of PPL Energy Supply's goodwill.

PPL Energy Supply tested goodwill for impairment in the fourth quarter of 2011 and no impairment was recognized. Management used both discounted cash flows and market multiples, which required significant assumptions, to estimate the fair value of PPL Energy Supply. Applying an appropriate weighting to both the discounted cash flow and market multiple valuations, a decrease in the forecasted cash flows of 10%, an increase in the discount rate by 25 basis points, or a 10% decrease in the multiples would not have resulted in an impairment of goodwill.

In 2010 and 2009, $5 million and $3 million of goodwill allocated to discontinued operations was written off.

4) Loss Accruals

Losses are accrued for the estimated impacts of various conditions, situations or circumstances involving uncertain or contingent future outcomes. For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that a loss has been incurred, given the likelihood of the uncertain future events, and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

The accounting aspects of estimated loss accruals include (1) the initial identification and recording of the loss, (2) the determination of triggering events for reducing a recorded loss accrual, and (3) the ongoing assessment as to whether a recorded loss accrual is sufficient. All three of these aspects require significant judgment by management. Internal expertise and outside experts (such as lawyers and engineers) are used, as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

No new significant loss accruals were recorded in 2011.

Certain other events have been identified that could give rise to a loss, but that do not meet the conditions for accrual. Such events are disclosed, but not recorded, when it is "reasonably possible" that a loss has been incurred. See Note 15 to the Financial Statements for disclosure of other potential loss contingencies that have not met the criteria for accrual.

When an estimated loss is accrued, the triggering events for subsequently reducing the loss accrual are identified, where applicable. The triggering events generally occur when the contingency has been resolved and the actual loss is paid or written off, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the reduction of certain recorded loss accruals:

- Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted, a better estimate of the allowance is determined or underlying amounts are ultimately collected.

- Environmental and other litigation contingencies are reduced when the contingency is resolved and actual payments are made, a better estimate of the loss is determined or the loss is no longer considered probable.

Loss accruals are reviewed on a regular basis to assure that the recorded potential loss exposures are appropriate. This involves ongoing communication and analyses with internal and external legal counsel, engineers, operation management and other parties.

See Note 15 to the Financial Statements for a discussion of the Montana Hydroelectric Litigation, including the reversal of an $89 million loss accrual, as a result of management's assessment of the February 2012 U.S. Supreme Court decision.

5) Asset Retirement Obligations

PPL Energy Supply is required to recognize a liability for legal obligations associated with the retirement of long-lived assets. The initial obligation should be measured at its estimated fair value. A conditional ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. An equivalent amount should be recorded as an increase in the value of the capitalized asset and allocated to expense over the useful life of the asset. Until the obligation is settled, the liability is increased, through the recognition of accretion expense in the income statement, for changes in the obligation due to the passage of time. See Note 21 to the Financial Statements for further discussion of AROs.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that considers estimated retirement costs in current period dollars that are inflated to the anticipated retirement date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is amortized over the remaining life of the associated long-lived asset.

At December 31, 2011, AROs totaling $359 million were recorded on the Balance Sheet, of which $10 million is included in "Other current liabilities." Of the total amount, $292 million, or 81%, relates to the nuclear decommissioning ARO. The most significant assumptions surrounding AROs are the forecasted retirement costs, the discount rates and the inflation rates. A variance in any of these inputs could have a significant impact on the ARO liabilities.

The following table reflects the sensitivities related to the nuclear decommissioning ARO liability associated with a change in these assumptions as of December 31, 2011. There is no significant change to the annual depreciation expense of the ARO asset or the annual accretion expense of the ARO liability as a result of changing the assumptions. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption.

	Change in Assumption	Impact on ARO Liability
Retirement Cost	10%	$ 29
Discount Rate	(0.25)%	26
Inflation Rate	0.25%	30

6) Income Taxes

Significant management judgment is required in developing the provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and the determination of deferred tax assets, liabilities and valuation allowances.

Significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. Tax positions are evaluated following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known at the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be de-recognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future.

At December 31, 2011, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase by as much as $1 million or decrease by up to $27 million. This change could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the timing and utilization of tax credits and the related impact on alternative minimum tax, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized to account for an uncertain tax position. Management also considers the uncertainty posed by political risk and the effect of this uncertainty on the various factors that management takes into account in evaluating the need for valuation allowances. The amount of deferred tax assets ultimately realized may differ materially from the estimates utilized in the computation of valuation allowances and may materially impact the financial statements in the future. See Note 5 to the Financial Statements for income tax disclosures.

Other Information

PPL's Audit Committee has approved the independent auditor to provide audit and audit-related services, tax services and other services permitted by Sarbanes-Oxley and SEC rules. The audit and audit-related services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews. See "Item 14. Principal Accounting Fees and Services" for more information.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information provided in this Item 7 should be read in conjunction with PPL Electric's Consolidated Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of PPL Electric and its business strategy. "Financial and Operational Developments" includes a review of Net Income Available to PPL Corporation and discusses certain events that are important to understanding PPL Electric's results of operations and financial condition.

- "Results of Operations" provides a summary of PPL Electric's earnings and a description of key factors expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on PPL Electric's Statements of Income, comparing 2011, 2010 and 2009.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL Electric's liquidity position and credit profile. This section also includes a discussion of rating agency decisions and capital expenditure projections.

- "Financial Condition - Risk Management" provides an explanation of PPL Electric's risk management programs relating to market and credit risk.

- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of PPL Electric and that require its management to make significant estimates, assumptions and other judgments of matters inherently uncertain.

Overview

Introduction

PPL Electric is an electricity delivery service provider in eastern and central Pennsylvania with headquarters in Allentown, Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that territory as a PLR under the Customer Choice Act.

Business Strategy

PPL Electric's strategy and principal challenge is to own and operate its electricity delivery business at the most efficient cost while maintaining high quality customer service and reliability. PPL Electric anticipates that it will have significant capital expenditure requirements in the future. In order to manage financing costs and access to credit markets, a key objective for PPL Electric's business is to maintain a strong credit profile. PPL Electric continually focuses on maintaining an appropriate capital structure and liquidity position.

Timely recovery of costs applicable to the replacement of aging distribution assets is required in order to maintain strong cash flows and a strong credit profile. Traditionally, such cost recovery would be pursued through periodic base rate case proceedings with the PUC. As such costs continue to increase, more frequent rate case proceedings may be required or an alternative rate making process would need to be implemented in order to achieve more timely recovery as discussed below in "Legislation - Regulatory Procedures and Mechanisms."

Transmission costs are recovered through a FERC Formula Rate mechanism which is updated annually for costs incurred and assets placed in service. Accordingly, increased costs including the replacement of aging transmission assets and the PJM-approved Regional Transmission Line Expansion Plan are recovered on a timely basis.

Financial and Operational Developments

Net Income Available to PPL Corporation

Net Income Available to PPL Corporation for 2011, 2010 and 2009 was $173 million, $115 million and $124 million. Earnings in 2011 increased 50% over 2010 and earnings in 2010 decreased 7% from 2009. These changes reflect the following after tax impacts:

	2011 vs. 2010	2010 vs. 2009
Distribution base rate increase effective in January 2011	$ 40	
Interest expense on reduced debt balances	2	$ 9
Payroll, contractor and vegetation management costs	1	(22)
Workforce reduction		5
Tax benefit related to flow-through regulated state tax depreciation	14	
Other	1	(1)
	$ 58	$ (9)

See "Results of Operations" below for further discussion and analysis of the consolidated results of operations.

Storm Recovery

PPL Electric experienced several PUC-reportable storms during 2011 resulting in total restoration costs of $84 million, of which $54 million were recorded in "Other operation and maintenance" on the Statement of Income. Although PPL Electric has storm insurance with a PPL affiliate, the costs associated with the unusually high number of PUC-reportable storms has exceeded policy limits. Probable insurance recoveries recorded during 2011 were $26.5 million, of which $16 million were included in "Other operation and maintenance" on the Statement of Income. In December 2011, PPL Electric received orders from the PUC granting permission to defer qualifying storm costs in excess of insurance recoveries associated with Hurricane Irene and a late October snowstorm. Based on the PUC orders, PPL Electric recorded a regulatory asset of $25 million in December 2011. PPL Electric will seek recovery of these costs in its next general base rate proceeding.

PUC Investigation of Retail Market

In April 2011, the PUC opened an investigation of Pennsylvania's retail electricity market to be conducted in two phases. Phase one addressed the status of the current retail market and explored potential changes. Questions promulgated by the PUC for this phase of the investigation focus primarily on default service issues. In June 2011, interested parties filed comments and the PUC held a hearing in this phase of the investigation. In July 2011, the PUC entered an order initiating phase two of the investigation to study how best to address issues identified by the PUC as being most relevant to improving the current retail electricity market. The PUC issued a tentative order in October 2011 addressing issues associated with the timing and various other details of the EDCs' default service procurement plans. Parties filed comments to that tentative order. The PUC also held a hearing in this phase of the investigation in November 2011. In December 2011, the PUC issued a final order providing guidance to EDCs on the design of their next default service procurement plan filings. In December 2011, the PUC also issued a tentative order proposing an intermediate work plan to address issues raised in the investigation. Parties filed comments to that tentative order. PPL Electric cannot predict the outcome of the investigation.

Regional Transmission Line Expansion Plan

In 2007, PJM directed the construction of a new 150-mile, 500-kilovolt transmission line between the Susquehanna substation in Pennsylvania and the Roseland substation in New Jersey that it identified as essential to long-term reliability of the Mid-Atlantic electricity grid. PJM determined that the line is needed to prevent potential overloads that could occur on several existing transmission lines in the interconnected PJM system. PJM has directed PPL Electric to construct the portion of the Susquehanna-Roseland line in Pennsylvania and has directed Public Service Electric & Gas Company to construct the portion of the line in New Jersey, in each case by June 1, 2012. PPL Electric's estimated share of the project costs is approximately $500 million.

PPL Electric has experienced delays in obtaining necessary National Park Service approvals for the Susquehanna-Roseland transmission line and anticipates a delay of the line's in-service date to 2015. In 2011, PJM issued an updated assessment of the new line within its 2010 Regional Transmission Expansion Plan, which confirms that the line is needed to prevent overloads on other power lines in the region. PJM has developed a strategy to manage potential reliability problems until the line is built. In October 2011, the project was placed on the initial list of projects for the Rapid Response Team for Transmission (RRTT), an initiative of the White House to facilitate coordination among federal agencies to improve the overall quality and timeliness of electric transmission infrastructure permitting, review and consultation. The RRTT has reaffirmed the issuance date of the National Park Service record of decision for the project. The National Park Service has stated that it will announce the preferred route for the transmission line in March 2012 with an expected Record of Decision in October 2012. PPL Electric cannot predict what additional actions, if any, PJM might take in the event of a continued delay to its scheduled in-service date for the new line. See Note 8 to the Financial Statements for additional information.

On December 30, 2011, PPL Electric filed a Petition for Declaratory Order requesting FERC to authorize incentive rates for a new 58-mile 230 kV transmission project referred to as the Northeast/Pocono Reliability Project. PPL Electric's request includes two incentives, a 100 basis point incentive adder to its return on equity of 11.68%, and inclusion of 100% prudently incurred construction work in progress costs in rate base with the incentive rate of return. These incentives are specifically tailored to address the risks and challenges PPL Electric will face in building the project. PPL Electric estimates the project costs to be approximately $180 million. In January 2012, the PUC and the Joint Consumer Advocates each filed a protest opposing PPL Electric's request. American Municipal Power, Inc. filed comments. PPL Electric filed responses to the two protests and the comments. PPL Electric cannot predict the outcome of this proceeding.

Legislation - Regulatory Procedures and Mechanisms

In June 2011, the Pennsylvania House Consumer Affairs Committee approved legislation that would authorize the PUC to approve regulatory procedures and mechanisms to provide for more timely recovery of a utility's costs. Such alternative ratemaking procedures and mechanisms are important to PPL Electric as it begins a period of significant increasing capital investment related to the asset optimization program focused on the replacement of aging distribution assets. Those procedures and mechanisms include, but are not limited to, the use of a fully projected future test year and an automatic adjustment clause to recover certain capital costs and related operating expenses. In October 2011, the legislation was passed by the Pennsylvania House of Representatives (Pennsylvania House). In January 2012, the Senate Consumer Affairs Committee adopted significant amendments to the legislation. The amended legislation authorizes the PUC to approve only two specific ratemaking mechanisms -- a fully projected future test year and a distribution system improvement charge. In addition, the amendments impose a number of conditions on the use of such a charge. In January 2012, the Pennsylvania Senate passed the amended legislation and in February 2012, the Pennsylvania House agreed to those amendments. The Governor signed the bill (Act 11 of 2012), which will become effective April 14, 2012. Utilities cannot file a petition with the PUC before January 1, 2013 requesting permission to establish the charge.

FERC Formula Rates

In March 2012, PPL Electric plans to file a request with the FERC seeking recovery, over a 34-year period beginning in June 2012, of its unrecovered regulatory asset related to the deferred state tax liability that existed at the time of the transition from the flow-through treatment of state income taxes to full normalization. This change in tax treatment occurred in 2008 as a result of prior FERC initiatives that transferred regulatory jurisdiction of certain transmission assets from the PUC to the FERC. A regulatory asset of $51 million related to this transition, classified as taxes recoverable through future rates, is included in "Other Noncurrent Assets - Regulatory assets" on the Balance Sheet. PPL Electric believes recoverability of this regulatory asset is probable based on FERC precedent in similar cases; however, it is reasonably possible that the FERC may limit the recovery of all or part of the claimed asset.

Results of Operations

When comparing 2011 and 2010 with 2009, certain line items on PPL Electric's financial statements were impacted by the Customer Choice Act, Act 129 and other related issues. The expiration of generation rate caps, the resulting competitive solicitations for power supply, the migration of customers to alternative suppliers, the Customer Choice Act and Act 129 had minimal impact on Pennsylvania Gross Delivery Margins, as approved recovery mechanisms allow for cost recovery of associated expenses, including the cost of energy provided as a PLR. However, PPL Electric's 2010 Pennsylvania Gross Delivery Margins were negatively impacted by the expiration of CTC recovery in December 2009. PPL Electric continues to remain the delivery provider for all customers in its service territory and charges a regulated rate for the service of delivering electricity.

See "Statement of Income Analysis - Pennsylvania Gross Delivery Margins" for additional information.

Earnings

Net Income Available to PPL Corporation includes the following results:

	2011	2010	% Change	2010	2009	% Change
Operating revenue	$ 1,892	$ 2,455	(23)	$ 2,455	$ 3,292	(25)
Energy purchases	738	1,075	(31)	1,075	114	843
Energy purchases from affiliate	26	320	(92)	320	1,806	(82)
Other operation and maintenance	530	502	6	502	417	20
Amortization of recoverable transition costs					304	(100)
Depreciation	146	136	7	136	128	6
Taxes, other than income	104	138	(25)	138	194	(29)
Total operating expenses	1,544	2,171	(29)	2,171	2,963	(27)
Other Income (Expense) - net	5	5		5	6	(17)
Interest Income from Affiliate	2	2		2	4	(50)
Interest Expense	98	99	(1)	99	116	(15)
Interest Expense with Affiliate					2	(100)
Income Taxes	68	57	19	57	79	(28)
Net Income	189	135	40	135	142	(5)
Distributions on Preferred Securities	16	20	(20)	20	18	11
Net Income Available to PPL Corporation	$ 173	$ 115	50	$ 115	$ 124	(7)

The changes in the components of Net Income Available to PPL Corporation between these periods were due to the following factors. PPL Electric's results are adjusted for certain items that management considers special. See additional detail of these special items in the table below.

	2011 vs. 2010	2010 vs. 2009
Pennsylvania gross delivery margins	$ 66	$ 3
Other operation and maintenance	4	(49)
Depreciation	(10)	(8)
Interest Expense	1	19
Other	4	(4)
Income Taxes	(11)	23
Distributions on Preferred Securities	4	(2)
Special Items, after-tax		9
Total	$ 58	$ (9)

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Pennsylvania Gross Delivery Margins.

- Other operation and maintenance increased in 2010 compared with 2009, primarily due to $18 million in higher payroll-related costs and $20 million in higher contractor costs, primarily related to vegetation management.

- Depreciation was higher in 2011 compared with 2010 and 2010 compared with 2009, primarily due to PP&E additions as a part of ongoing efforts to replace aging infrastructure.

- Interest expense decreased in 2010 compared with 2009, primarily due to a $16 million reduction driven by lower average debt balances in 2010 compared with 2009.

- Income taxes were higher in 2011 compared with 2010, due to the $26 million impact of higher pre-tax income, partially offset by a $14 million tax benefit related to the impact of flow-through regulated tax depreciation that is primarily related to the Pennsylvania Department of Revenue interpretive guidance regarding 100% bonus depreciation.

  Income taxes were lower in 2010 compared with 2009, due to the $14 million impact of lower pre-tax income and a $7 million tax benefit relating to a favorable 2010 U.S. Tax Court ruling regarding street lighting assets.

The following after-tax amounts, which management considers special items, also impacted the results.

	Income Statement Line Item	2009
Special items gains (losses), net of tax benefit (expense):		
Impairments:		
Other asset impairments, net of tax of $1	Other O&M	$ (1)
Workforce reduction, net of tax of $3 (a)	Other O&M	(5)
Other:		
Change in tax accounting method related to repairs (b)	Income Taxes	(3)
Total		$ (9)

(a) Charge related to a workforce reduction, mainly consisting of enhanced pension and severance benefits.

(b) During 2009, PPL Electric received consent from the IRS to change its method of accounting for certain expenditures for tax purposes. PPL Electric deducted the resulting IRC Sec. 481 amount on its 2008 federal income tax return and recorded a $3 million adjustment to federal and state income tax expense resulting from the reversal of prior years' state income tax benefits related to regulated depreciation.

2012 Outlook

Excluding special items, PPL Electric projects lower earnings in 2012 compared with 2011, primarily driven by higher operation and maintenance expenses, higher income taxes, and higher depreciation, which are expected to be partially offset by higher delivery revenue.

In late March 2012, PPL Electric expects to file a request with the PUC seeking an increase in its distribution rates beginning in January 2013. PPL Electric cannot predict the outcome of this matter.

Earnings beyond 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," "Item 1. Business," "Item 1A. Risk Factors," the rest of this Item 7 and Notes 6 and 15 to the Financial Statements for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Pennsylvania Gross Delivery Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Pennsylvania Gross Delivery Margins." "Pennsylvania Gross Delivery Margins" is a single financial performance measure of PPL Electric's Pennsylvania regulated electric delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Energy purchases from affiliate," "Other operation and maintenance" expense, which is primarily Act 129 costs, and "Taxes, other than income", which is primarily gross receipts tax. As a result, this measure represents the net revenues from PPL Electric's Pennsylvania regulated electric delivery operations. This measure is not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL Electric believes that "Pennsylvania Gross Delivery Margins" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management and PPL's Board of Directors to manage PPL Electric's operations and analyze actual results to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Pennsylvania Gross Delivery Margins" as defined by PPL Electric for the period ended December 31.

	2011			2010		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues						
Retail electric	$ 1,881		$ 1,881	$ 2,448		$ 2,448
Electric revenue from affiliate	11		11	7		7
Total Operating Revenues	1,892		1,892	2,455		2,455
Operating Expenses						
Energy purchases	738		738	1,075		1,075
Energy purchases from affiliate	26		26	320		320
Other operation and maintenance	108	$ 422	530	76	$ 426	502
Depreciation		146	146		136	136
Taxes, other than income	99	5	104	129	9	138
Total Operating Expenses	971	573	1,544	1,600	571	2,171
Total	$ 921	$ (573)	$ 348	$ 855	$ (571)	$ 284

	2009		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues			
Retail electric	$ 3,218		$ 3,218
Electric revenue from affiliate	74		74
Total Operating Revenues	3,292		3,292
Operating Expenses			
Energy purchases	114		114
Energy purchases from affiliate	1,806		1,806
Other operation and maintenance	30	$ 387	417
Amortization of recoverable transition costs	304		304
Depreciation		128	128
Taxes, other than income	186	8	194
Total Operating Expenses	2,440	523	2,963
Total	$ 852	$ (523)	$ 329

(a) Represents amounts that are excluded from Margins.
(b) As reported on the Statement of Income.

Changes in Non-GAAP Financial Measures

The following table shows PPL Electric's non-GAAP financial measure, "Pennsylvania Gross Delivery Margins" for the periods ended December 31, as well as the change between periods. The factors that gave rise to the change are described below the table.

	2011	2010	Change	2010	2009	Change
PA Gross Delivery Margins by Component						
Distribution	$ 741	$ 679	$ 62	$ 679	$ 702	$ (23)
Transmission	180	176	4	176	150	26
Total	$ 921	$ 855	$ 66	$ 855	$ 852	$ 3

Distribution

The PPL Electric distribution rate case increased rates by approximately 1.6% effective January 1, 2011, which improved residential distribution margins by $68 million. Residential volume variances increased margins by an additional $4 million for 2011, compared with the same period in 2010. Weather had a $3 million unfavorable impact for residential customers for 2011 compared with 2010. Weather-related variances for PPL Electric are calculated based on a ten-year historical average. Lastly, lower demand charges and increased efficiency as a result of Act 129 programs resulted in a $5 million decrease in margins for commercial and industrial customers.

The decrease in 2010 compared with 2009 was primarily due to margins realized in 2009 related to the collection of CTC that ended in December 2009 of $37 million, partially offset by favorable recovery mechanisms for certain energy-related costs of $16 million.

Transmission

The increase in 2010 compared with 2009 was primarily due to increased investment in rate base, an increase in the cost of capital due to an increase in equity and the recovery of additional costs through the FERC formula-based rates.

Other Operation and Maintenance

The changes in other operation and maintenance expenses were due to:

	2011 vs. 2010	2010 vs. 2009
Act 129 costs incurred (a)	$ 26	$ 54
Vegetation management costs (b)	(8)	13
Payroll-related costs	4	18
Contractor-related expenses	3	7
Allocation of certain corporate support group costs	3	6
Uncollectible accounts	7	3
Ancillary charges (c)		(11)
Environmental costs	(4)	5
Workforce reduction (Note 13)		(9)
Employee benefits	(5)	(4)
Other	2	3
Total	$ 28	$ 85

(a) Relates to costs associated with a PUC-approved energy efficiency and conservation plan. These costs are recovered in customer rates. There are currently 15 Act 129 programs which began in 2010 and continued to ramp up in 2011.
(b) In 2010, PPL Electric increased its vegetation management around its 230- and 500-kV major transmission lines in response to federal reliability requirements for transmission vegetation management.
(c) Prior to 2010, these charges were assessed to load serving entities (LSE), and PPL Electric was considered the LSE. Beginning in 2010, PPL Electric incurred the bulk of these charges as part of the bundled price of PLR supply from the individual PLR generation suppliers and such costs are reflected in energy purchases.

Taxes, Other Than Income

Taxes, other than income decreased by $34 million in 2011 compared with 2010. This decrease was primarily due to $21 million of lower Pennsylvania gross receipts tax expense due to a decrease in retail electricity revenue as customers continue to select alternative suppliers in 2011. The decrease was also impacted by the amortization of a PURTA refund of $10 million in 2011. Pennsylvania gross receipts tax and the PURTA refund are included in "Pennsylvania Gross Delivery Margins."

Taxes, other than income decreased by $56 million in 2010 compared with 2009. The decrease was primarily due to lower Pennsylvania gross receipts tax expense due to a decrease in electricity revenue as customers chose alternate suppliers in 2010.

Depreciation

Depreciation increased by $10 million in 2011 compared with 2010, primarily due to PP&E additions as part of ongoing efforts to replace aging infrastructure. Depreciation increased by $8 million in 2010 compared with 2009, primarily due to PP&E additions.

Financing Costs

The changes in financing costs, which includes "Interest Expense", "Interest Expense with Affiliate" and "Distributions on Preferred Securities," were due to:

	2011 vs. 2010	2010 vs. 2009
Long-term debt interest expense (a)	$ (3)	$ (16)
Interest on PLR contract collateral (Note 16)		(2)
Distributions on preferred securities (b)	(4)	2
Recoverable transition costs		(3)
Amortization of debt issuance costs (c)	5	2
Other	(3)	
Total	$ (5)	$ (17)

(a) The decrease in 2011 compared with 2010 was due to the net impact of refinancing $400 million of long-term debt at lower interest rates and issuing $250 million of long-term debt in the third quarter of 2011. The decrease in 2010 compared with 2009 was primarily due to long-term debt retirements in the third quarter of 2009.
(b) The decrease in 2011 compared with 2010 was primarily due to preferred stock redemption in 2010.
(c) The increase in 2011 compared with 2010 was primarily due to amortization of loss on reacquired debt associated with the redemption of senior secured bonds in 2011.

Income Taxes

The changes in income taxes were due to:

	2011 vs. 2010	2010 vs. 2009
Higher (Lower) pre-tax book income	$ 26	$ (13)
Federal and state tax reserve adjustments (a)	3	(5)
Federal and state tax return adjustments (b)	(3)	(5)
Depreciation not normalized (c)	(14)	
Other	(1)	1
	$ 11	$ (22)

(a) In July 2010, the U.S. Tax Court ruled in PPL Electric's favor in a dispute with the IRS, concluding that street lighting assets are depreciable for tax purposes over seven years. As a result, PPL Electric recorded a $7 million tax benefit to federal and state income tax reserves and related deferred income taxes during 2010.

During 2011, 2010 and 2009 PPL Electric recorded a $6 million, $7 million and $6 million tax benefit to federal and state income tax reserves related to stranded cost securitization.

(b) During 2009, PPL Electric received consent from the IRS to change its method of accounting for certain expenditures for tax purposes. PPL Electric deducted the resulting IRC Sec. 481 amount on its 2008 federal income tax return and recorded a $3 million adjustment to federal and state income tax expense resulting from the reversal of prior years' state income tax benefits related to regulated depreciation.

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

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

Financial Condition

Liquidity and Capital Resources

PPL Electric continues to focus on maintaining a strong credit profile and liquidity position. PPL Electric expects to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents and its credit facilities.

PPL Electric's cash flows from operations and access to cost-effective bank and capital markets are subject to risks and uncertainties including, but not limited to:

- unusual or extreme weather that may damage PPL Electric's transmission and distribution facilities or affect energy sales to customers;
- the ability to recover and the timeliness and adequacy of recovery of costs associated with regulated utility businesses;
- any adverse outcome of legal proceedings and investigations with respect to PPL Electric's current and past business activities;
- deterioration in the financial markets that could make obtaining new sources of bank and capital markets funding more difficult and more costly; and
- a downgrade in PPL Electric's credit ratings that could adversely affect its ability to access capital and increase the cost of credit facilities and any new debt.

See "Item 1A. Risk Factors" for further discussion of risks and uncertainties affecting PPL Electric's cash flows.

At December 31, PPL Electric had the following:

	2011	2010	2009
Cash and cash equivalents	$ 320	$ 204	$ 485

The changes in PPL Electric's cash and cash equivalents position resulted from:

	2011	2010	2009
Net cash provided by operating activities	$ 420	$ 212	$ 294
Net cash provided by (used in) investing activities	(477)	(403)	6
Net cash provided by (used in) financing activities	173	(90)	(298)
Net Increase (Decrease) in Cash and Cash Equivalents	$ 116	$ (281)	$ 2

Operating Activities

Net cash provided by operating activities increased by 98%, or $208 million, in 2011 compared with 2010, primarily due to changes in working capital of $322 million (including lower gross receipts tax payments, a federal income tax refund and changes in over/under collections of the generation supply and transmission service charges). These changes were partially offset by an increase in defined benefit plan contributions of $58 million and $25 million related to storm costs incurred in 2011that has been recorded as a long-term regulatory asset.

Net cash provided by operating activities decreased by 28%, or $82 million, in 2010 compared with 2009. The expiration of the generation rate caps at the end of 2009 had little impact on net income, while increased transmission revenue was almost completely offset by decreased distribution revenue. However, higher tree trimming and payroll costs and additional defined benefit plan contributions were the primary drivers to the decrease in cash provided by operating activities. Also impacting the 2010 operating cash flows was the elimination of the CTC charge of approximately $300 million that was received in 2009. This amount offsets the benefit of not paying the $300 million in cash collateral related to the long-term PLR energy supply agreements with PPL Energy Supply, which expired at the end of 2009.

Investing Activities

The primary use of cash in investing activities is capital expenditures. See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2012 through 2016.

Net cash used in investing activities was $477 million in 2011 compared with to $403 million in 2010. The change from 2010 to 2011 primarily reflects an increase of $80 million in capital expenditures in 2011.

Net cash used in investing activities was $403 million in 2010 compared with cash provided by investing activities of $6 million in 2009. The change from 2009 to 2010 primarily reflects an increase of $113 million in capital expenditures in 2010 and the receipt of $300 million from an affiliate as repayment of a demand loan in 2009.

Financing Activities

Net cash provided by financing activities was $173 million in 2011 compared with net cash used in financing activities of $90 million in 2010. The change from 2010 to 2011 primarily reflects $187 million of net debt issuances in 2011 and $54 million of preferred stock redemptions in 2010.

Net cash used in financing activities was $90 million in 2010 compared with $298 million in 2009. The change from 2009 to 2010 primarily reflects no debt activity in 2010 compared with net debt retirements of $392 million in 2009, partially offset by lower net contributions from PPL of $142 million in 2010 and $54 million of preferred stock redemptions in 2010.
See "Forecasted Sources of Cash" for a discussion of PPL Electric's plans to issue debt and equity securities, as well as a discussion of credit facility capacity available to PPL Electric. Also see "Forecasted Uses of Cash" for a discussion of PPL Electric's plans to pay dividends on its common and preferred securities, as well as maturities of PPL Electric's long-term debt.

Forecasted Sources of Cash

PPL Electric expects to continue to have sufficient sources of cash available in the near term, including various credit facilities and a commercial paper program.

Credit Facilities

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

	Committed Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
Syndicated Credit Facility (a)	$ 200		$ 1	$ 199
Asset-backed Credit Facility (b)	150		n/a	150
Total PPL Electric Credit Facilities	$ 350		$ 1	$ 349

(a) In October 2011, PPL Electric amended its Syndicated Credit Facility. The amendment included extending the expiration date from December 2014 to October 2016. Under this facility, PPL Electric continues to have the ability to make cash borrowings and to request the lenders to issue letters of credit. The commitments under this credit facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 6% of the total committed capacity.

PPL Electric's Syndicated Credit Facility contains a financial covenant requiring PPL Electric's debt to total capitalization not to exceed 70%, as calculated in accordance with the credit facility, and other customary covenants.

(b) PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary pledges these assets to secure loans of up to an aggregate of $150 million from a commercial paper conduit sponsored by a financial institution. At December 31, 2011, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under this facility was limited to $103 million. In July 2011, PPL Electric and the subsidiary extended the expiration date of the credit agreement related to the asset-backed commercial paper program to July 2012.

In addition to the financial covenants noted above, the credit agreements governing the credit facilities contain financial and various other covenants. Failure to comply with the covenants after applicable grace periods could result in acceleration of repayment of borrowings and/or termination of the agreements. PPL Electric monitors compliance with the covenants on a regular basis. At December 31, 2011, PPL Electric was in compliance with these covenants. At this time, PPL Electric believes that these covenants and other borrowing conditions will not limit access to these funding sources.

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

Commercial Paper

PPL Electric maintains a commercial paper program for up to $200 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are currently supported by PPL Electric's $200 million syndicated credit facility, which expires in October 2016, based on available capacity.

PPL Electric did not issue any commercial paper during 2011. Based on its current cash position and anticipated cash flows, PPL Electric currently does not plan to issue any commercial paper during 2012, but it may do so from time to time, subject to market conditions, to facilitate short-term cash flow needs.

Contributions from PPL

From time to time PPL may make capital contributions to PPL Electric. PPL Electric may use these contributions for general corporate purposes.

Long-term Debt and Equity Securities

PPL Electric currently does not plan to issue long-term debt securities in 2012.

The Economic Stimulus Package

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

Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as purchased power, payroll, and taxes, PPL Electric currently expects to incur future cash outflows for capital expenditures, various contractual obligations, payment of dividends on its common and preferred securities and possibly the purchase or redemption of a portion of its debt securities.

Capital Expenditures

The table below shows PPL Electric's current capital expenditure projections for the years 2012 through 2016.

	Projected				
	2012	**2013**	**2014**	**2015**	**2016**
Construction expenditures (a) (b)					
Distribution facilities	$ 337	$ 352	$ 317	$ 275	$ 280
Transmission facilities	333	517	503	400	308
Total Capital Expenditures	$ 670	$ 869	$ 820	$ 675	$ 588

(a) Construction expenditures include AFUDC, which is expected to be approximately $52 million for the years 2012 through 2016.
(b) Includes expenditures for intangible assets.

PPL Electric's capital expenditure projections for the years 2012 through 2016 total approximately $3.6 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. The table includes projected costs for the asset optimization program focused on the replacement of aging transmission and distribution assets, and the PJM-approved regional transmission line expansion project. See Note 8 to the Financial Statements for additional information.

PPL Electric plans to fund its capital expenditures in 2012 with cash on hand, cash from operations and equity contributions from PPL.

Contractual Obligations

PPL Electric has assumed various financial obligations and commitments in the ordinary course of conducting its business. At December 31, 2011, the estimated contractual cash obligations of PPL Electric were:

	Total	2012	2013 - 2014	2015 - 2016	After 2016
Long-term Debt (a)	$ 1,724		$ 10	$ 100	$ 1,614
Interest on Long-term Debt (b)	1,734	$ 86	169	163	1,316
Purchase Obligations (c)	424	122	135	84	83
Other Long-term Liabilities Reflected on the Balance Sheet under GAAP (d) (e)	54	54			
Total Contractual Cash Obligations	$ 3,936	$ 262	$ 314	$ 347	$ 3,013

(a) Reflects principal maturities only based on stated maturity dates. PPL Electric does not have any capital or operating lease obligations.
(b) Assumes interest payments through stated maturity.
(c) The amounts include agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Primarily includes PPL Electric's purchase obligations of electricity. Open purchase orders that are provided on demand with no firm commitment are excluded from the amounts presented. In prior years, PPL Electric included certain electricity purchase obligations based on forecasted amounts to be purchased. The amounts presented herein are based on actual contract terms.
(d) The amounts represent contributions made or committed to be made for 2012 for PPL's U.S. pension plans. See Note 13 to the Financial Statements for a discussion of expected contributions.
(e) At December 31, 2011, total unrecognized tax benefits of $73 million were excluded from this table as PPL Electric cannot reasonably estimate the amount and period of future payments. See Note 5 to the Financial Statements for additional information.

Dividends

From time to time, as determined by its Board of Directors, PPL Electric pays dividends on its common stock to its parent, PPL.

As discussed in Note 7 to the Financial Statements, PPL Electric may not pay dividends on its common stock, except in certain circumstances, unless full dividends have been paid on the 6.25% Series Preference Stock for the then-current dividend period. PPL Electric does not, at this time, expect that such limitation would significantly impact its ability to declare dividends.

PPL Electric expects to continue to pay quarterly dividends on its outstanding preference securities, as declared by its Board of Directors.

Purchase or Redemption of Debt Securities

PPL Electric will continue to evaluate its outstanding debt securities and may decide to purchase or redeem these securities depending upon prevailing market conditions and available cash.

Rating Agency Decisions

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

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL Electric are based on information provided by PPL Electric and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL Electric.

Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in PPL Electric's credit ratings could result in higher borrowing costs and reduced access to capital markets.

As a result of the passage of the Dodd-Frank Act, PPL Electric is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to PPL Electric's ratings, but without stating what ratings have been assigned to PPL Electric or its securities. The ratings assigned by the rating agencies to PPL Electric and its respective securities may be found, without charge, on each of the respective ratings agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

The rating agencies took the following actions related to PPL Electric in 2011.

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

- Moody's affirmed its ratings for PPL Electric;
- S&P revised the outlook and lowered the issuer, senior secured, preference stock and commercial paper ratings of PPL Electric; and
- Fitch affirmed its ratings for PPL Electric.

In April 2011, following the completion of PPL's acquisition of WPD Midlands, S&P revised the outlook for PPL Electric, raised its commercial paper rating and affirmed its issuer, senior secured and preference stock ratings.

In July 2011, S&P upgraded the senior secured rating for PPL Electric's first mortgage bonds following the execution of a supplemental indenture that provided for prospective amendments to PPL Electric's 2001 Mortgage Indenture, as discussed in "Long-term Debt Securities" above.

In December 2011, Fitch affirmed the Issuer Default Ratings and individual security ratings of PPL Electric.

Off-Balance Sheet Arrangements

PPL Electric has entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 15 to the Financial Statements for a discussion of these agreements.

Risk Management

Market Risk

Commodity Price and Volumetric Risk - PLR Contracts

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

Interest Rate Risk

PPL Electric has issued debt to finance its operations, which exposes it to interest rate risk. PPL Electric had no potential annual exposure to increased interest expense, based on a 10% increase in interest rates, at December 31, 2011 and 2010. PPL Electric estimated that a 10% decrease in interest rates at December 31, 2011 would increase the fair value of its debt portfolio by $94 million, compared with $66 million at December 31, 2010.

Credit Risk

Credit risk is the risk that PPL Electric would incur a loss as a result of nonperformance by counterparties of their contractual obligations. PPL Electric requires that counterparties maintain specified credit ratings and requires other assurances in the form of credit support or collateral in certain circumstances in order to limit counterparty credit risk. However, PPL Electric has concentrations of suppliers, financial institutions and customers. These concentrations may impact PPL Electric's overall exposure to credit risk, positively or negatively, as counterparties may be similarly affected by changes in economic, regulatory or other conditions.

In 2009, the PUC approved PPL Electric's PLR procurement plan for the period January 2011 through May 2013. To date, PPL Electric has conducted ten of its 14 planned competitive solicitations.

Under the standard Supply Master Agreement (the Agreement) for the competitive solicitation process, PPL Electric requires all suppliers to post collateral if their credit exposure exceeds an established credit limit. In the event a supplier defaults on its obligation, PPL Electric would be required to seek replacement power in the market. All incremental costs incurred by PPL Electric would be recoverable from customers in future rates. At December 31, 2011, substantially all of the successful bidders under all of the solicitations had an investment grade credit rating from S&P, and were not required to post collateral under the Agreement. There is no instance under the Agreement in which PPL Electric is required to post collateral to its suppliers.

See "Overview" in this Item 7 and Notes 15, 16, 18 and 19 to the Financial Statements for additional information on the competitive solicitations, the Agreement, credit concentration and credit risk.

Related Party Transactions

PPL Electric is not aware of any material ownership interests or operating responsibility by senior management of PPL Electric in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with PPL Electric. See Note 16 to the Financial Statements for additional information on related party transactions.

Environmental Matters

Protection of the environment is a priority for PPL Electric and a significant element of its business activities. See "Item 1. Business - Environmental Matters" and Note 15 to the Financial Statements for a discussion of environmental matters.

Competition

See "Item 1. Business - Segment Information - Pennsylvania Regulated Segment - Competition" for a discussion of competitive factors affecting PPL Electric.

New Accounting Guidance

See Notes 1 and 24 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). PPL's senior management has reviewed these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them, with PPL's Audit Committee.

1) Defined Benefits

PPL Electric participates in a qualified funded defined benefit pension plan, an unfunded non-qualified defined benefit plan and a funded defined benefit other postretirement benefit plan, sponsored by other PPL subsidiaries and administered through PPL Services. PPL Electric is allocated a significant portion of the liability and net periodic defined benefit pension and other postretirement costs of the plans sponsored by other PPL subsidiaries based on participation in those plans. PPL Electric records an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to regulatory assets. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 13 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

PPL Services makes certain assumptions regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in regulatory assets. The amount in regulatory assets is amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- Discount Rate - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.

- Expected Return on Plan Assets - Management projects the long-term rates of return on plan assets based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. These projected returns reduce the net benefit costs PPL records currently.

- Rate of Compensation Increase - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.

- Health Care Cost Trend Rate - Management projects the expected increases in the cost of health care.

In selecting a discount rate for its defined benefit plans, PPL Services starts with a cash flow analysis of the expected benefit payment stream for its plans. For 2010, these plan-specific cash flows were matched against a spot-rate yield curve to determine the assumed discount rate. To develop the spot-rate yield curve, the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, served as the base from which those with the lowest and highest yields were eliminated to develop an appropriate subset of bonds from which the ultimate yield curve would be built. At that time, Management believed this plan-specific cash flow matching model represented the best available tool for estimating the discount rate. Beginning in 2011, PPL Services utilized a new tool that enhanced this plan-specific cash flow matching methodology by primarily matching the plan-specific cash flows against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the same subset of the universe of Aa-rated corporate bonds from which those with the lowest and highest yields were eliminated, similar to the yield curve approach. Individual bonds were then selected based on the timing of each plan's cash flows and parameters were established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed. This process more accurately approximated the process of settlement of the obligations, which better aligns with the objective of selecting the discount rate. At December 31, 2011, PPL Services decreased the discount rate for its U.S. pension plans from 5.41% to 5.07% and decreased the discount rate for its other postretirement benefit plans from 5.16% to 4.81%.

The expected long-term rates of return for PPL Services' U.S. defined benefit pension and other postretirement benefits have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. PPL management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption. Based on PPL's change to a liability-driven investment strategy, PPL's U.S. defined benefit pension assets have shifted into a greater proportion of fixed-income investments. Based on this change in investment strategy, at December 31, 2011, PPL Services' expected return on plan assets decreased from 7.25% to 7.00% for its U.S. pension plan and decreased from 6.45% to 5.70% for its other postretirement benefit plan.

In selecting a rate of compensation increase, PPL Services considers past experience in light of movements in inflation rates. At December 31, 2011, PPL Services' rate of compensation increase decreased from 4.75% to 4.00% for its U.S. plan.

In selecting health care cost trend rates for PPL Services' other postretirement benefit plans, PPL Services considers past performance and forecasts of health care costs. At December 31, 2011, PPL Services' health care cost trend rates were 8.50% for 2012, gradually declining to 5.50% for 2019.

A variance in the assumptions listed above could have a significant impact on the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and the regulatory assets allocated to PPL Electric. While the charts below reflect either an increase or decrease in each assumption, the inverse of this change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and regulatory assets by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption and does not include income tax effects.

At December 31, 2011, the defined benefit plans were recorded as follows.

Pension liabilities	$	(186)
Other postretirement benefit liabilities		(53)

The following chart reflects the sensitivities in the December 31, 2011 Balance Sheet associated with a change in certain assumptions based on PPL Services' primary defined benefit plans.

	Increase (Decrease)				
Actuarial assumption	Change in assumption	Impact on defined benefit liabilities		Impact on regulatory assets	
Discount Rate	(0.25)%	$	38	$	38
Rate of Compensation Increase	0.25%		6		6
Health Care Cost Trend Rate (a)	1.00%		1		1

(a) Only impacts other postretirement benefits.

In 2011, PPL Electric was allocated net periodic defined benefit costs charged to operating expense of $17 million. This amount represents a $3 million decrease compared with the charge recognized during 2010.

The following chart reflects the sensitivities in the 2011 Statement of Income (excluding income tax effects) associated with a change in certain assumptions based on PPL Services' primary defined benefit plans.

Actuarial assumption	Change in assumption	Impact on defined benefit costs	
Discount Rate	(0.25)%	$	3
Expected Return on Plan Assets	(0.25)%		2
Rate of Compensation Increase	0.25%		1

2) Loss Accruals

Losses are accrued for the estimated impacts of various conditions, situations or circumstances involving uncertain or contingent future outcomes. For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that a loss has been incurred, given the likelihood of the uncertain future events, and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

The accounting aspects of estimated loss accruals include (1) the initial identification and recording of the loss, (2) the determination of triggering events for reducing a recorded loss accrual, and (3) the ongoing assessment as to whether a recorded loss accrual is sufficient. All three of these aspects require significant judgment by management. Internal expertise and outside experts (such as lawyers and engineers) are used, as necessary, to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

No new significant loss accruals were recorded in 2011.

Certain other events have been identified that could give rise to a loss, but that do not meet the conditions for accrual. Such events are disclosed, but not recorded, when it is "reasonably possible" that a loss has been incurred. See Note 15 to the Financial Statements for disclosure of other potential loss contingencies that have not met the criteria for accrual.

When an estimated loss is accrued, the triggering events for subsequently reducing the loss accrual are identified, where applicable. The triggering events generally occur when the contingency has been resolved and the actual loss is paid or written off, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the reduction of certain recorded loss accruals:

- Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted, a better estimate of the allowance is determined or underlying amounts are ultimately collected.

- Environmental and other litigation contingencies are reduced when the contingency is resolved and actual payments are made, a better estimate of the loss is determined or the loss is no longer considered probable.

Loss accruals are reviewed on a regular basis to assure that the recorded potential loss exposures are appropriate. This involves ongoing communication and analyses with internal and external legal counsel, engineers, operation management and other parties.

3) Income Taxes

Significant management judgment is required in developing the provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and the determination of deferred tax assets, liabilities and valuation allowances.

Significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. Tax positions are evaluated following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known at the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be de-recognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future.

At December 31, 2011, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase by as much as $48 million or decrease by up to $63 million. This change could result from the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized to account for an uncertain tax position. See Note 5 to the Financial Statements for income tax disclosures.

4) Regulatory Assets and Liabilities

PPL Electric's electricity delivery business is subject to cost-based rate regulation. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to other regulated entities, and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, then asset write-offs would be required to be recognized in operating income. Additionally, the regulatory agencies can provide flexibility in the manner and timing of depreciation of PP&E and amortization of regulatory assets.

At December 31, 2011 and 2010, PPL Electric had regulatory assets of $729 million and $655 million. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices. At December 31, 2011 and 2010, PPL Electric had regulatory liabilities of $60 million and $32 million.

In March 2012, PPL Electric plans to file a request with the FERC seeking recovery, over a 34-year period beginning in June 2012, of its unrecovered regulatory asset related to the deferred state tax liability that existed at the time of the transition from the flow-through treatment of state income taxes to full normalization. This change in tax treatment occurred in 2008 as a result of prior FERC initiatives that transferred regulatory jurisdiction of certain transmission assets from the PUC to the FERC. A regulatory asset of $51 million related to this transition, classified as taxes recoverable through future rates, is included in "Other Noncurrent Assets - Regulatory assets" on the Balance Sheet. PPL Electric believes recoverability of this regulatory asset is probable based on FERC precedent in similar cases; however, it is reasonably possible that the FERC may limit the recovery of all or part of the claimed asset.

See Note 6 to the Financial Statements for additional information on regulatory assets and liabilities.

5) Revenue Recognition - Unbilled Revenue

Revenues related to the sale of energy are recorded when energy is delivered to customers. Because customers are billed on cycles which vary based on the timing of the actual meter reads taken throughout the month, PPL Electric records estimates for unbilled revenues at the end of each reporting period. Such unbilled revenue amounts reflect estimates of the amount of energy delivered to customers since the date of the last reading of their meters. The unbilled estimate is based on daily load models, the meter read schedule, and actual weather data. The unbilled accrual is based on estimated usage for each customer class, and the current rate schedule pricing. At December 31, 2011 and 2010, PPL Electric had unbilled revenue of $98 million and $134 million.

Other Information

PPL's Audit Committee has approved the independent auditor to provide audit and audit-related services, tax services and other services permitted by Sarbanes-Oxley and SEC rules. The audit and audit-related services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews. See "Item 14. Principal Accounting Fees and Services" for more information.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information provided in this Item 7 should be read in conjunction with LKE's Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of LKE and its business strategy. "Financial and Operational Developments" includes a review of Net Income and discusses certain events that are important to understanding LKE's results of operations and financial condition.

- "Results of Operations" provides a summary of LKE's earnings and a description of key factors expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on LKE's Statements of Income, comparing 2011, 2010 and 2009.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of LKE's liquidity position and credit profile. This section also includes a discussion of rating agency decisions and capital expenditure projections.

- "Financial Condition - Risk Management" provides an explanation of LKE's risk management programs relating to market and credit risk.

- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of LKE and that require its management to make significant estimates, assumptions and other judgments of matters inherently uncertain.

Overview

Introduction

LKE, headquartered in Louisville, Kentucky, is a limited liability company. LKE became a wholly owned subsidiary of PPL when PPL acquired all of LKE's interests from E.ON US Investments Corp. on November 1, 2010. LKE has regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electric energy. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and it serves customers in Tennessee under the KU name. Refer to "Item 1. Business - Background" for a description of LKE's business.

Business Strategy

LKE's overall strategy is to provide reliable, safe and competitively priced energy to its customers.

A key objective for LKE is to maintain a strong credit profile through managing financing costs and access to credit markets. LKE continually focuses on maintaining an appropriate capital structure and liquidity position.

Successor and Predecessor Financial Presentation

LKE's Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010, and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, which are discussed in Note 1 to the Financial Statements. The cost bases of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down basis of accounting, which was used to record the fair value adjustments of assets and liabilities at the acquisition date. Consequently, the financial position, results of operations and cash flows for the Successor periods are not comparable to the Predecessor periods; however, the core operations of LKE have not changed as a result of the acquisition.

Financial and Operational Developments

Net Income

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Net Income (Loss)	$ 265	$ 47	$ 190	$ (1,542)

The operating results for 2011 and 2010 include the effect of LG&E's and KU's base rate increases, which became effective August 1, 2010, partially offset by net cost increases, which have not yet been reflected in the rates charged by LG&E and KU. The operating results for the ten months ended October 31, 2010 also include $19 million of other income associated with the establishment of regulatory assets for previously recorded losses on interest rate swaps. The operating results for 2009 include a loss on impairment of goodwill of $1,493 million, which LKE recorded based on bids received from parties interested in purchasing LKE, including PPL. In addition, net income for 2009 includes $220 million of losses from discontinued operations primarily related to the disposition of a 25-year lease and operating agreements of WKE, for the generating facilities of BREC.

See "Results of Operations" below for further discussion and analysis of the results of operations.

TC2

LKE constructed a 732 MW summer capacity coal-fired unit, TC2, which is jointly owned by LG&E and KU (combined 75%), together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency (combined 25%). With limited exceptions LKE took care, custody and control of TC2 in January 2011. LG&E and KU and the construction contractor further amended the construction agreement to provide that the contractor will complete certain actions to identify and complete any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. A number of remaining issues regarding these matters are still under discussion with the contractor. See Notes 8 and 15 to the Financial Statements for additional information.

Registered Debt Exchange Offer by LKE, LG&E and KU

In April 2011, LKE, LG&E and KU each filed a Registration Statement with the SEC, related to an offer to exchange certain senior notes and first mortgage bonds issued in November 2010, in transactions not subject to registration under the Securities Act of 1933, with similar but registered securities. The 2011 Registration Statements became effective in June 2011, and the exchanges were completed in July 2011, with substantially all of the senior notes and first mortgage bonds being exchanged. See Note 7 to the Financial Statements and the 2011 Registration Statements for additional information.

CSAPR

In July 2011, the EPA signed the CSAPR, which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010, and made revisions to the rule on February 7, 2012. This rule applies to the Kentucky coal plants. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions.

In December 2011, the U.S. Court of Appeals for the District of Columbia (Court) stayed implementation of the CSAPR and left CAIR in effect pending a final resolution on the merits of the validity of the rule. Oral argument on the various challenges to the CSAPR is scheduled for April 2012, and a final decision on the validity of the rule could be issued as early as May 2012.

With respect to LKE's Kentucky coal-fired generating plants, the stay of the CSAPR will initially only impact the unit dispatch order. With the return of the CAIR and LG&E's and KU's significant number of sulfur dioxide allowances, those units will be dispatched with lower operating cost, but slightly higher sulfur dioxide and nitrogen oxide emissions. However, a key component of the Court's final decision, even if the CSAPR is upheld, will be whether the ruling delays the implementation of the CSAPR by one year for both Phases I and II, or instead still requires the significant sulfur dioxide and nitrogen oxide reductions associated with Phase II to begin in 2014. LG&E's and KU's CSAPR compliance strategy is based on over-compliance during Phase I to generate allowances sufficient to cover the expected shortage during the first two years of Phase II (2014 and 2015) when additional pollution control equipment will be installed. Should Phase I of the CSAPR be shortened to one year, it will be more difficult and costly to provide enough excess allowances in one year to meet the shortage projected for 2014 and 2015.

See Note 15 to the Financial Statements for additional information on the CSAPR.

Pending Bluegrass CTs Acquisition and NGCC Construction

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run plant site. In conjunction with this request and to meet new, stricter EPA regulations, LG&E and KU anticipate retiring six older coal-fired electric generating units. These units are located at the Cane Run, Green River and Tyrone plants, which have a combined summer rating of 797 MW. LG&E and KU also requested approval to purchase the Bluegrass CTs, which are expected to provide up to 495 MW of peak generation supply.

LG&E and KU anticipate that the NGCC construction and the acquisition of the Bluegrass CTs could require up to $800 million (comprised of up to $300 million for LG&E and up to $500 million for KU) in capital costs including related transmission projects. Formal requests for recovery of the costs associated with the NGCC construction and the acquisition of the Bluegrass CTs were not included in the CPCN filing with the KPSC but are expected to be included in future rate proceedings. The KPSC issued an Order on the procedural schedule in the CPCN filing that has discovery, scheduled through early February 2012. A KPSC order on the CPCN filing is anticipated in the second quarter of 2012. See Note 8 to the Financial Statements for additional information.

ECR Filing - Environmental Upgrades

In June 2011, in order to achieve compliance with new and pending mandated federal EPA regulations, LG&E and KU filed ECR plans with the KPSC requesting approval to install environmental upgrades for certain of their coal-fired plants along with the recovery of their expected $1.4 billion for LG&E and $1.1 billion for KU in associated capital costs, as well as operating expenses incurred. The ECR plans detailed upgrades that will be made to certain of LG&E's and KU's coal-fired generating plants to continue to be compliant with EPA regulations.

In November 2011, LG&E and KU filed a unanimous settlement agreement, stipulation and recommendation with the KPSC. In December 2011, LG&E and KU received KPSC approval in their proceedings relating to the ECR plans. The KPSC Order approved the terms of the November 2011 settlement agreement entered into between LG&E and KU and the parties to the ECR proceedings. The KPSC Order authorized the installation of environmental upgrades at certain plants during 2012-2016 representing approximate capital costs of $1.4 billion at LG&E and $900 million at KU. In connection with the approved projects, the KPSC Order allows recovery through the ECR rate mechanism of the capital costs and operating expenses of the projects and granted CPCNs for their construction. The KPSC Order also confirmed an existing 10.63% authorized return on equity for projects remaining from earlier ECR plans and provided for an authorized return on equity of 10.10% for the approved projects in the 2011 ECR proceedings. The KPSC Order noted KU's consent to defer the requested approval for certain environmental upgrades at its E.W. Brown generating plant, which represented approximately $200 million in capital costs. KU retained the right to operate and dispatch the E.W. Brown generating plant in accordance with applicable environmental standards and the right to request approval of the deferred projects and related costs in future regulatory proceedings See Note 6 to the Financial Statements for additional information.

Storm Recovery

In August 2011, a strong storm hit LG&E's service area causing significant damage and widespread outages for approximately 139,000 customers. LG&E filed an application with the KPSC in September 2011 requesting approval of a regulatory asset recorded to defer, for future recovery, $8 million in incremental operation and maintenance expenses related to the storm restoration. An Order was received in December 2011 granting regulatory accounting treatment, while recovery of the regulatory asset will be determined within the next base rate case.

In December 2009, a major snowstorm hit KU's Virginia service area causing approximately 30,000 customer outages. During the normal 2009 Virginia Annual Information Filing (AIF), KU requested that the VSCC establish a regulatory asset and defer for future recovery $6 million in incremental operation and maintenance expenses related to the storm restoration. In March 2011, the VSCC Staff issued its report on KU's 2009 AIF stating that it considered this storm damage to be extraordinary, non-recurring and material to KU. The Staff Report also recommended establishing a regulatory asset for these costs, with recovery over a five-year period upon approval in the next base rate case. In March 2011, a regulatory asset of $6 million was established for actual costs incurred. In June 2011, the VSCC issued an Order approving the recommendations contained in the Staff Report. KU received approval in its 2011 base rate case to recover this regulatory asset over a five-year period ending October 2016.

In September 2009, the KPSC approved the deferral of a total of $101 million ($44 million and $57 million for LG&E and KU) of costs associated with a severe ice storm that occurred in January 2009 and a wind storm that occurred in February 2009. Additionally, in December 2008, the KPSC approved the deferral of a total of $26 million ($24 million and $2 million for LG&E and KU) of costs associated with high winds from the remnants of Hurricane Ike in September 2008. LG&E and KU received approval in their 2010 base rate cases to recover these regulatory assets over a ten-year period beginning August 2010.

Virginia Rate Case

In April 2011, KU filed an application with the VSCC requesting an annual increase in electric base rates for its Virginia jurisdictional customers of $9 million, or 14%. In September 2011, a settlement stipulation was reached between KU and the VSCC Staff and filed with the VSCC for consideration. In October 2011, the VSCC approved the stipulation with two modifications that were accepted by KU. The VSCC issued an Order closing the proceeding in October 2011. The approved revenue increase was $7 million annually, based on a return on equity of 10.3%, with new base rates effective November 1, 2011.

Results of Operations

As previously noted, LKE's results for the time periods after October 31, 2010 are on a basis of accounting different from its results for time periods prior to November 1, 2010. When discussing LKE's results of operations material differences resulting from the different basis of accounting will be isolated for purposes of comparability. See "Overview - Successor and Predecessor Financial Presentation" for further information.

The utility business is affected by seasonal weather. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. Revenue and earnings are generally higher during the first and third quarters and lower during the second quarter due to weather.

The following table summarizes the significant components of net income for 2011, 2010, and 2009 and the changes therein:

Earnings

	Successor	%	Combined	Successor	Predecessor	%	Predecessor
	Year Ended December 31, 2011	Change 2011 vs. 2010	Year Ended December 31, 2010	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Change 2010 vs. 2009	Year Ended December 31, 2009
Operating Revenues	$ 2,793	3	$ 2,708	$ 494	$ 2,214	8	$ 2,501
Fuel	866	1	861	138	723	13	762
Energy purchases	238	(15)	279	68	211	(26)	379
Other operation and maintenance	751	3	727	141	586	12	647
Depreciation	334	18	284	49	235	5	271
Taxes, other than income	37	61	23	2	21	(26)	31
Total Operating Expenses	2,226	2	2,174	398	1,776	4	2,090
Loss on Impairment						(100)	1,493
Other Income (Expense) - net	(1)	(108)	12	(2)	14	(48)	23
Interest Expense	147	(16)	176	24	152		176
Income Taxes	153	14	134	25	109	63	82
Income (Loss) from Discontinued Operations (net of income taxes)	(1)	(200)	1	2	(1)	(100)	(220)
Net Income (Loss)	265	12	237	47	190	(115)	(1,537)
Noncontrolling Interest - Loss from Discontinued Operations						(100)	5
Net Income (Loss) Attributable to Member	$ 265	12	$ 237	$ 47	$ 190	(115)	$ (1,542)

The changes in the components of Net Income between these periods were due to the following factors. The results are adjusted for certain items that management considers special. See additional detail of these special items in the table below.

	2011 vs. 2010	2010 vs. 2009
Margin	$ 92	$ 191
Other operation and maintenance	(5)	(67)
Depreciation	(43)	(9)
Taxes, other than income	(14)	8
Other Income (Expense) - net	(13)	(11)
Interest Expense	29	
Income Taxes	(18)	(52)
Special Items, after-tax		1,719
	$ 28	$ 1,779

- See "Statement of Income Analysis - Margin - Changes in Non-GAAP Financial Measures" for an explanation of margin.

- Other operation and maintenance increased in 2010 compared with 2009, primarily due to higher administrative and general costs of $38 million and higher steam costs of $13 million. Administrative and general costs increased in part due to acquisition-related costs of $17 million and higher bad debt costs of $6 million, partially offset by lower pension costs of $6 million.

- Depreciation expense was $32 million higher in 2011 compared with 2010, due to TC2 commencing dispatch in January 2011.

- Taxes, other than income increased in 2011 compared with 2010, primarily due to a $9 million clean coal incentive tax credit that LKE was able to apply to property tax in 2010.

- Other Income (Expense) - net decreased in 2011 compared with 2010, primarily due to $19 million of other income from the establishment of a regulatory asset for previously recorded losses on interest rate swaps in 2010.

- Interest expense decreased in 2011 compared with 2010, due to lower interest rates and lower long-term debt balances. Lower interest rates contributed $17 million of the decrease in interest expense, as the interest rates on the first mortgage bonds were lower than the rates on the loans from Fidelia Corporation and other E.ON AG affiliates, which were replaced. Lower long-term debt principal balances contributed $15 million of the decrease, as LKE's long-term debt principal balances were lower for most of 2011, compared with its long-term debt principal balances as of December 31, 2010, this was partially offset; as LKE's long-term debt principal balances increased in 2011. LKE long-term debt principal balances were $248 million higher as of December 31, 2011 compared with December 31, 2010.

- Income taxes increased in 2011 compared with 2010, primarily due to the $19 million impact of higher pre-tax income.

  Income taxes increased in 2010 compared with 2009, primarily due to the $43 million impact of higher pre-tax income.

The following after-tax amounts, which management considers special items, also impacted earnings:

	Income Statement Line Item	Successor: Year Ended December 31, 2011	Successor: Two Months Ended December 31, 2010	Predecessor: Ten Months Ended October 31, 2010	Predecessor: Year Ended December 31, 2009
Special Items, net of tax benefit (expense):					
Energy-related economic activity, net of tax of $(1), $1, $0, $0 (a)	Operating revenues	$ 1	$ (1)		$ (1)
Impairment of goodwill, net of tax of $0, $0, $0, $0	Loss on impairment				(1,493)
BREC terminated lease, net of tax of $1, ($2), $1, $124 (b)	Disc. Operations	(1)	2	$ (1)	(212)
Argentine gas distribution, net of tax of $0, $0, $0, $(8) (c)	Disc. Operations				(8)
Argentine gas distribution, net of tax of $0, $0, $0, $0 (c)	Noncontrol. Interest				(5)
Total		$	$ 1	$ (1)	$ (1,719)

(a) Represents net unrealized gains (losses) on contracts that economically hedge anticipated cash flows .
(b) Represents costs associated with a terminated lease of WKE for the generating facilities of BREC. See Note 9 to the Financial Statements for additional information.
(c) Represents an impairment loss for LKE's interest in two gas distribution companies in Argentina, which it sold in 2010. See Note 9 to the Financial Statements for additional information.

2012 Outlook

Excluding special items, LKE projects lower earnings in 2012 compared with 2011, as revenue increases are not expected to offset expense increases, which will include increases in depreciation expense, due to more plant in service and in interest expense, due to higher average debt balances as a result of capital expenditures. Actual results will be dependent on the effects of the economy and the impact of weather on retail sales among other variables. As a result of the stay out provision established in the settlement of the PPL-LKE acquisition, LKE is generally unable to implement an increase in base rates for its two regulated utilities in Kentucky before January 1, 2013.

Earnings in 2012 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 7, Notes 6 and 15 to the Financial Statements and "Business," and "Risk Factors" in this Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margin

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margin." Margin is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margin is a single financial performance measure of LKE's operations. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expenses and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. As a result, this measure represents the net revenues from LKE's operations. This performance measure is used, in conjunction with other information, internally by senior management to manage LKE's operations and analyze actual results compared with budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margin" as defined by LKE for 2011, 2010 and 2009.

	2011 Successor		
	Margin	Other (a)	Operating Income (b)
Operating Revenues	$ 2,791	$ 2	$ 2,793
Operating Expenses			
Fuel	866		866
Energy purchases	238		238
Other operation and maintenance	90	661	751
Depreciation	49	285	334
Taxes, other than income		37	37
Total Operating Expenses	1,243	983	2,226
Total	$ 1,548	$ (981)	$ 567

	Successor			Predecessor		
	Two Months Ended December 31, 2010			Ten Months Ended October 31, 2010		
	Margin	Other (a)	Operating Income (b)	Margin	Other (a)	Operating Income (b)
Operating Revenues	$ 495	$ (1)	$ 494	$ 2,214		$ 2,214
Operating Expenses						
Fuel	138		138	723		723
Energy purchases	68		68	211		211
Other operation and maintenance	14	127	141	57	$ 529	586
Depreciation	7	42	49	35	200	235
Taxes, other than income		2	2		21	21
Total Operating Expenses	227	171	398	1,026	750	1,776
Total	$ 268	$ (172)	$ 96	$ 1,188	$ (750)	$ 438

	2009 Predecessor		
	Margin	Other (a)	Operating Income (b)
Operating Revenues	$ 2,502	$ (1)	$ 2,501
Operating Expenses			
Fuel	762		762
Energy purchases	379		379
Other operation and maintenance	58	589	647
Depreciation	38	233	271
Taxes, other than income		31	31
Impairment		1,493	1,493
Total Operating Expenses	1,237	2,346	3,583
Total	$ 1,265	$ (2,347)	$ (1,082)

(a) Represents amounts excluded from Margin.
(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins were higher by $92 million for 2011 compared with 2010. New KPSC rates went into effect on August 1, 2010, contributing to an additional $112 million in operating revenue over the prior year. Partially offsetting the rate increase were lower retail volumes resulting from weather and economic conditions.

Other Operation and Maintenance

Changes in other operation and maintenance expense were due to the following:

	2011 vs. 2010	2010 vs. 2009
Fuel for generation (a)	$ 11	$ 2
Steam operation (b)	10	2
Distribution maintenance (c)	8	(2)
Steam maintenance (d)	4	11
Transmission operation (e)		7
Administrative and general (f)	(1)	38
Other generation maintenance (g)	(4)	6
Other	(4)	16
Total	$ 24	$ 80

(a) Fuel handling costs are included in fuel for electric generation on the Statements of Income for the Successor's periods and are in other operation and maintenance expense on the Statements of Income for the Predecessor's periods.
(b) Steam operation costs increased in 2011 compared with 2010, primarily due to higher variable costs, the result of TC2 commencing dispatch in 2011.
(c) Distribution maintenance costs increased in 2011 compared with 2010, primarily due to amortization of storm restoration-related costs along with a hazardous tree removal project initiated in August 2010, and an increase in pipeline integrity work. This increase was partially offset by $6 million of 2009 winter storm restoration expenses being reclassified to a regulatory asset in 2011.
(d) Steam maintenance costs increased in 2010 compared with 2009, primarily due to increased generation and boiler and electric maintenance costs related to outage work.
(e) Transmission operation costs increased in 2010 compared with 2009, primarily due to a settlement agreement with a third party resulting in the establishment of a regulatory asset in 2009.
(f) Administrative and general costs increased in 2010 compared with 2009, primarily due to acquisition-related costs of $17 million incurred in 2010, higher bad debt costs of $6 million and PPL support charges of $3 million incurred for two post-acquisition months in 2010, partially offset by lower pension costs of $6 million. Bad debt costs increased in 2010 compared with 2009, due to higher billed revenues and a higher net charge-off percentage partially offset by increased late payment charges. Pension costs decreased in 2010 compared with 2009, due to favorable asset performance in 2009.
(g) Other generation maintenance costs increased in 2010 compared with 2009, primarily due to the overhaul of Paddy's Run Unit 13.

Depreciation

Changes in depreciation were due to the following:

	2011 vs. 2010	2010 vs. 2009
TC2 (dispatch began in January 2011)	$ 32	
E.W. Brown sulfur dioxide scrubber equipment (placed in-service in June 2010)	8	$ 7
Ghent Unit 2 sulfur dioxide scrubber equipment (placed in-service in May 2009)		3
Other	10	3
Total	$ 50	$ 13

Taxes, Other Than Income

Taxes, other than income increased by $14 million in 2011 compared with 2010 primarily due to a $9 million state coal tax credit that was applied to 2010 property taxes. The remaining increase was due to higher assessments, primarily from significant property additions. Taxes, other than income decreased by $8 million in 2010 compared with 2009 primarily due to a $5 million increase in the amount of state coal tax credits applied to property tax.

Loss on Impairment

LKE did not experience impairment losses in 2011 or in 2010. In 2009, the loss on impairment of goodwill was $1,493 million. LKE recorded goodwill impairment in 2009 based on bids received from parties interested in purchasing LKE, including PPL.

Other Income (Expense) - net

Changes in other income (expense) - net were due to the following:

	2011 vs. 2010	2010 vs. 2009
Net derivative gains (losses) (a)		$ (18)
Discontinuance of AFUDC on ECR projects as a result of the FERC rate case		(4)
Depreciation expense on TC2 joint-use assets held for future use	$ 3	(3)
Losses on interest rate swaps (b)	(19)	19
Other	3	(5)
Total	$ (13)	$ (11)

(a) Net derivative gains and losses includes the unrealized gains and losses on interest rate swaps not designated as hedging instruments and the ineffective portion of interest rate swaps designated and qualifying as a cash flow hedge.
(b) Other income in 2010 resulted from the establishment of a regulatory asset for previously recorded losses on interest rate swaps, which is included in "Net derivative gains and losses" within Note 17 to the Financial Statements.

Interest Expense

The changes in interest expense were due to:

	2011 vs. 2010	2010 vs. 2009
Interest rates (a)	$ (17)	$ (20)
Long-term debt balances (b)	(15)	8
Other	3	12
Total	$ (29)	$

(a) Interest rates on senior notes and first mortgage bonds issued in November 2010 were lower than the rates on the loans from Fidelia Corporation and other E.ON AG affiliates in place through October 2010.
(b) LKE's long-term debt principal balance was $923 million lower as of December 31, 2010 compared with December 31, 2009 primarily due to an equity contribution from PPL of $1.6 billion at the time of acquisition. LKE's long-term debt principal balance was $248 million higher as of December 31, 2011 compared with December 31, 2010.

Income Taxes

Changes in income taxes were due to the following:

	2011 vs. 2010	2010 vs. 2009
Income (Loss) from continuing operations excluding non-deductible impairment loss	$ 19	$ 43
Foreign tax		4
Other		5
Total	$ 19	$ 52

Income (Loss) from Discontinued Operations (net of income taxes)

Changes in income (loss) from discontinued operations (net of income taxes) were due to the following:

	2011 vs. 2010	2010 vs. 2009
BREC terminated lease (a)	$ (2)	$ 213
Argentine gas distribution (b)		8
Total	$ (2)	$ 221

(a) In 2009, LKE completed the disposition of WKE's 25-year lease and operating agreements for the generating facilities owned or operated by BREC.
(b) In 2009, LKE recorded an impairment loss for two gas distribution companies located in Argentina, which it sold in 2010.

Financial Condition

Liquidity and Capital Resources

LKE expects to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents and its credit facilities.

LKE's cash flows from operations and access to cost-effective bank and capital markets are subject to risks and uncertainties including, but not limited to:

- changes in market prices for electricity;
- changes in commodity prices that may increase the cost of producing power or decrease the amount LKE receives from selling power;
- operational and credit risks associated with selling and marketing products in the wholesale power markets;
- unusual or extreme weather that may damage LKE's transmission and distribution facilities or affect energy sales to customers;
- reliance on transmission and distribution facilities that LKE does not own or control to deliver its electricity and natural gas;
- unavailability of generating units (due to unscheduled or longer-than-anticipated generation outages, weather and natural disasters) and the resulting loss of revenues and additional costs of replacement electricity;
- the ability to recover and the timeliness and adequacy of recovery of costs associated with regulated utility businesses;
- costs of compliance with existing and new environmental laws;
- any adverse outcome of legal proceedings and investigations with respect to LKE's current and past business activities;
- deterioration in the financial markets that could make obtaining new sources of bank and capital markets funding more difficult and more costly; and
- a downgrade in LKE's or its rated subsidiaries' credit ratings that could adversely affect their ability to access capital and increase the cost of credit facilities and any new debt.

See "Item 1A. Risk Factors" for further discussion of risks and uncertainties affecting LKE's cash flows.

At December 31, LKE had the following:

	Successor		Predecessor
	2011	2010	2009
Cash and cash equivalents	$ 59	$ 11	$ 7
Short-term investments (a)		163	
	$ 59	$ 174	$ 7
Short-term debt (b)		$ 163	

(a) Represents tax-exempt bonds issued by Louisville/Jefferson County, Kentucky, on behalf of LG&E that were purchased from the remarketing agent in 2008. Such bonds were remarketed to unaffiliated investors in January 2011. See Note 7 to the Financial Statements for additional information.
(b) Represents borrowings under LG&E's $400 million syndicated credit facility. See Note 7 to the Financial Statements for additional information.

The changes in LKE's cash and cash equivalents position resulted from:

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Net cash provided by (used in) operating activities	$ 769	$ 26	$ 488	$ (204)
Net cash provided by (used in) investing activities	(265)	(211)	(426)	(706)
Net cash provided by (used in) financing activities	(456)	167	(40)	902
Net Increase (Decrease) in Cash and Cash Equivalents	$ 48	$ (18)	$ 22	$ (8)

Auction Rate Securities

At December 31, 2011, LG&E's and KU's tax-exempt revenue bonds that are in the form of auction rate securities and total $231 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the periods ended December 31, 2011, the weighted-average rate on LG&E's and KU's auction rate bonds in total was 0.25%.

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

Operating Activities

Net cash provided by operating activities increased by 50%, or $255 million, in 2011 compared with 2010, primarily as a result of:

- an increase in net income adjusted for non-cash effects of $177 million (deferred income taxes and investment tax credits of $101 million, depreciation of $50 million, amortization of regulatory assets of $15 million and other noncash items of $11 million, partially offset by unrealized (gains) losses on derivatives of $14 million, defined benefit plans - expense of $13 million and loss from discontinued operations - net of tax of $1 million);
- an increase in cash inflows related to income tax receivable of $79 million primarily due to net operating losses of $40 million recorded in 2010 and the payment of $40 million received by LKE for tax benefits in 2011;
- a net decrease in working capital related to unbilled revenues of $53 million due to colder weather in December 2010 as compared with December 2009 and milder weather in December 2011 as compared with December 2010; and
- a decrease in cash outflows of $29 million due to lower inventory levels in 2011 as compared with 2010 driven by $32 million for fuel inventory purchased in 2010 for TC2 that was not used until 2011 when TC2 began dispatch, $21 million due to lower coal burn as a result of unplanned outages at LG&E's Mill Creek plant and $6 million for decreases in gas storage volumes, partially offset by $22 million for KU's E.W. Brown and Ghent plants due primarily to increases in coal prices and $7 million for increases in coal in-transit; partially offset by
- an increase in discretionary defined benefit plan contributions of $105 million made in order to achieve LKE's long-term funding requirements.

Net cash provided by operating activities increased by 352%, or $718 million, in 2010 compared with 2009, primarily as a result of:

- the absence of payments made in July 2009 of $580 million for the WKE lease and operating agreement termination;
- an increase in net income adjusted for non-cash effects of $155 million (deferred income taxes and investment tax credits of $74 million, unrealized (gains) losses on derivatives of $47 million, depreciation of $13 million and amortization of regulatory assets of $3 million, partially offset by loss on impairment of goodwill of $1,493 million, loss from discontinued operations of $224 million, defined benefit plans - expense of $19 million and other noncash items of $20 million);
- lower storm expenses of $104 million; and
- the timing of ECR collections of $53 million; partially offset by
- a net increase in working capital from accounts receivable and unbilled revenues of $107 million due to the timing of cash receipts, an increase in base rates effective August 2010, colder weather in December 2009 as compared with December 2008 and colder weather in December 2010 as compared with December 2009;
- an increase in cash refunded to customers of $55 million due to prior period over-recoveries related to the gas supply clause filings;
- an increase in cash outflows related to inventory of $44 million, primarily due to a nominal decrease in the market price of natural gas in 2010 and a significant decrease in the market price of natural gas in 2009;
- an increase in backstop energy and aluminum production credit payments of $39 million under the smelter contract;
- higher interest payments of $33 million due to an accelerated settlement with E.ON AG; and
- an increase in discretionary defined benefit plan contributions of $14 million made in order to achieve LKE's long-term funding requirements.

Investing Activities

The primary use of cash in investing activities in 2011, 2010 and 2009 was capital expenditures. See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2012 through 2016.

Net cash used in investing activities decreased by 58%, or $372 million, in 2011 compared with 2010, as a result of:

- proceeds from the sale of other investments of $163 million in 2011;
- a decrease in capital expenditures of $134 million, primarily due to the completion of KU's scrubber program in 2010 and TC2 being dispatched in 2011; and

- an increase of notes receivable from affiliates of $107 million; partially offset by
- proceeds from sales of discontinued operations of $21 million in 2010 and
- a decrease in restricted cash of $11 million.

Net cash used in investing activities decreased by 10%, or $69 million, in 2010 compared with 2009, as a result of:

- a decrease in capital expenditures of $127 million, primarily due to lower expenditures related to the construction of TC2 and major storm events that occurred in 2009, and
- proceeds from sales of discontinued operations of $21 million in 2010; partially offset by
- a decrease of notes receivable from affiliates of $61 million;
- a decrease in restricted cash of $8 million;
- proceeds on the settlement of derivatives of $7 million in 2009; and
- proceeds from the sale of assets of $3 million in 2009.

Financing Activities

Net cash used in financing activities was $456 million in 2011 compared with net cash provided by financing activities of $127 million in 2010, primarily as a result of increased distributions to PPL and reduced contributions from PPL.

In 2011, cash used in financing activities consisted of:

- distributions to PPL of $533 million, which includes $248 million using the proceeds of the long-term debt issuance noted below;
- a repayment on a revolving line of credit of $163 million;
- the payment of debt issuance and credit facility costs of $8 million; and
- the repayment of debt of $2 million; partially offset by
- the issuance of senior notes of $250 million.

Net cash provided by financing activities was $127 million in 2010 compared with $902 million in 2009. In spite of significant new debt issuances associated with the repayments to E.ON AG affiliates in connection with PPL's acquisition of LKE, the cash provided by financing in 2010 is lower as a result of new debt issuances exceeding repayments by a smaller amount and by higher distributions paid in 2010.

In the two months of 2010 following PPL's acquisition of LKE, cash provided by financing activities of the Successor consisted of:

- the issuance of senior unsecured notes and first mortgage bonds of $2,890 million after discounts;
- the issuance of debt of $2,784 million to a PPL affiliate to repay debt due to E.ON AG affiliates upon the closing of PPL's acquisition of LKE;
- an equity contribution from PPL of $1,565 million; and
- a draw on a revolving line of credit of $163 million; partially offset by
- the repayment of debt to E.ON AG affiliates of $4,319 million upon the closing of PPL's acquisition of LKE;
- the repayment of debt to a PPL affiliate of $2,784 million upon the issuance of senior unsecured notes and first mortgage bonds;
- distributions to PPL of $100 million; and
- the payment of debt issuance and credit facility costs of $32 million.

In the ten months of 2010 preceding PPL's acquisition of LKE, cash used in financing activities by the Predecessor consisted of:

- the repayment of debt to an E.ON AG affiliate of $900 million;
- distributions to E.ON US Investments Corp. of $87 million; and
- a net decrease in notes payable with affiliates of $3 million; partially offset by
- the issuance of debt of $950 million to an E.ON AG affiliate.

In 2009, cash provided by financing activities by the Predecessor consisted of:

- the issuance of debt of $1,230 million to an E.ON AG affiliate, partially offset by
- the repayment of debt to an E.ON AG affiliate of $255 million;

- distributions to E.ON US Investments Corp. of $49 million;
- a net decrease in notes payable with affiliates of $22 million; and
- distributions to noncontrolling interests of $2 million for discontinued operations in 2009.

See "Forecasted Sources of Cash" for a discussion of LKE's plans to issue debt securities, as well as a discussion of credit facility capacity available to LKE. Also see "Forecasted Uses of Cash" for a discussion of plans to pay dividends on common securities in the future, as well as maturities of long-term debt.

LKE's long-term debt securities activity through December 31, 2011 was:

	Debt Issuances	Debt Retirement
LKE Senior Notes	$ 250	
LG&E and KU Capital LLC Medium Term Notes (a)		$ (2)
Total Cash Flow Impact	$ 250	$ (2)
Non-cash Exchanges (b)		
LKE Senior Unsecured Notes	$ 875	$ (875)
LG&E First Mortgage Bonds	535	(535)
KU First Mortgage Bonds	1,500	(1,500)
Total Exchanged	$ 2,910	$ (2,910)
Net Increase	$ 248	

(a) Notes were retired upon maturity.
(b) In April 2011, LKE, LG&E and KU each filed a 2011 Registration Statement with the SEC related to offers to exchange securities issued in November 2010 in transactions not registered under the Securities Act of 1933 with similar but registered securities. The registration became effective in June 2011, and the exchanges were completed in July 2011 with substantially all securities being exchanged.

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

Forecasted Sources of Cash

LKE expects to continue to have sufficient sources of cash available in the near term, including various credit facilities and operating cash flow. LG&E expects to remarket $194 million of tax-exempt bonds that will be put back to LG&E in 2012. In February 2012, LG&E and KU each established a commercial paper program for up to $250 million to provide an additional financing source to fund each of their short-term liquidity needs. Commercial paper issuances will be supported by the respective Syndicated Credit Facility.

Credit Facilities

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

	Committed Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
LKE Credit Facility with a subsidiary of PPL Energy Supply	$ 300			$ 300
LG&E Credit Facility (a) (d)	400			400
KU Credit Facilities (a) (b) (d)	598		$ 198	400
Total Credit Facilities (c)	$ 1,298		$ 198	$ 1,100

(a) In June 2011, LG&E and KU each amended its respective Syndicated Credit Facility such that the fees and the spread to benchmark interest rates for borrowings depend upon the respective company's senior secured long-term debt rating rather than the senior unsecured debt rating.
(b) In April 2011, KU entered into a new $198 million letter of credit facility that has been used to issue letters of credit to support outstanding tax exempt bonds. KU pays customary commitment and letter of credit fees under the new facility. The facility matures in April 2014. In August 2011, KU amended its letter of credit facility such that the fees depend upon KU's senior secured long-term debt rating rather than the senior unsecured debt rating.
(c) Total borrowings outstanding under LKE's credit facilities decreased on a net basis by $163 million since December 31, 2010.
(d) In October 2011, LG&E and KU each amended its respective syndicated credit facilities. The amendments included extending the expiration dates from December 2014 to October 2016. Under these facilities, LG&E and KU each continue to have the ability to make cash borrowings and to request the lenders to issue letters of credit.

The commitments under LG&E's and KU's credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 9% of the total committed capacity; however, the PPL affiliate provides a commitment of approximately 23% of LKE's total facilities listed above.

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

Operating Leases

LKE and its subsidiaries also have available funding sources that are provided through operating leases. LKE's subsidiaries lease office space, gas storage and certain equipment. These leasing structures provide LKE additional operating and financing flexibility. The operating leases contain covenants that are typical for these agreements, such as maintaining insurance, maintaining corporate existence and timely payment of rent and other fees.

See Note 11 to the Financial Statements for further discussion of the operating leases.

Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, LKE currently expects to incur future cash outflows for capital expenditures, various contractual obligations, payment of dividends on its common securities and possibly the purchase or redemption of a portion of debt securities.

Capital Expenditures

The table below shows LKE's current capital expenditure projections for the years 2012 through 2016.

	Projected				
	2012	**2013**	**2014**	**2015**	**2016**
Construction expenditures (a)					
Generating facilities (b)	$ 275	$ 279	$ 345	$ 296	$ 117
Distribution facilities	212	257	237	282	270
Transmission facilities (c)	84	107	88	74	65
Environmental	612	873	852	681	92
Other	26	42	39	51	46
Total Construction Expenditures	$ 1,209	$ 1,558	$ 1,561	$ 1,384	$ 590

(a) Construction expenditures include AFUDC, which is not expected to be significant for the years 2012 through 2016.
(b) Includes approximately $700 million of currently estimable costs related to replacement generation units due to EPA regulations not recoverable through the ECR mechanism. LKE expects to recover these costs over a period equivalent to the related depreciable lives of the assets through future rate proceedings.
(c) Includes approximately $100 million of currently estimable transmission costs related to replacement generation units. LKE expects to recover these costs over a period equivalent to the related depreciable lives of the assets through future rate proceedings.

LKE's capital expenditure projections for the years 2012 through 2016 total approximately $6.3 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes current estimates for LKE's environmental projects related to new and anticipated EPA compliance standards. Actual costs may be significantly lower or higher depending on the final requirements and market conditions. Certain environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism.

LKE plans to fund its capital expenditures in 2012 with cash on hand, cash from operations and short-term debt.

Contractual Obligations

LKE has assumed various financial obligations and commitments in the ordinary course of conducting its business. At December 31, 2011, the estimated contractual cash obligations of LKE were:

	Total	**2012**	**2013 - 2014**	**2015 - 2016**	**After 2016**
Long-term Debt (a)	$ 4,085			$ 900	$ 3,185
Interest on Long-term Debt (b)	2,725	$ 142	$ 277	274	2,032
Operating Leases (c)	56	15	24	11	6
Coal and Natural Gas Purchase Obligations (d)	2,829	823	1,281	695	30
Unconditional Power Purchase Obligations (e)	1,011	29	60	63	859
Construction Obligations (f)	409	278	116	13	2
Pension Benefit Plan Obligations (g)	55	55			
Other Obligations (h)	24	5	10	9	
Total Contractual Cash Obligations	$ 11,194	$ 1,347	$ 1,768	$ 1,965	$ 6,114

(a) Reflects principal maturities only based on stated maturity dates. See Note 7 to the Financial Statements for a discussion of variable-rate remarketable bonds issued on behalf of LG&E and KU. LKE does not have any significant capital lease obligations.
(b) Assumes interest payments through stated maturity. The payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated.
(c) See Note 11 to the Financial Statements for additional information.
(d) Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 15 to the Financial Statements for additional information.
(e) Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 15 to the Financial Statements for additional information.
(f) Represents construction commitments, including commitments for the Ghent landfill, Ohio Falls refurbishment and the Brown SCR construction including associated material transport systems for coal combustion residuals, which are also reflected in the Capital Expenditures table presented above.
(g) Based on the current funded status of LKE's qualified pension plans, no cash contributions are required. See Note 13 to the Financial Statements for a discussion of expected contributions.
(h) Represents other contractual obligations. Purchase orders made in the ordinary course of business are excluded from the amounts presented.

Dividends

From time to time, as determined by its Board of Directors, LKE pays dividends to the sole member, PPL.

As discussed in Note 7 to the Financial Statements, LG&E's and KU's ability to pay dividends is limited under a covenant in each of their $400 million revolving line of credit facilities. This covenant restricts their debt to total capital ratio to not more than 70%.

See Note 7 to the Financial Statements for other restrictions related to distributions on capital interests for LKE subsidiaries.

Purchase or Redemption of Debt Securities

LKE will continue to evaluate purchasing or redeeming outstanding debt securities and may decide to take action depending upon prevailing market conditions and available cash.

Rating Agency Decisions

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

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

In LKE's 2011 Registration Statement, LKE described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, LKE is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to LKE's ratings, but without stating what ratings have been assigned to LKE or its subsidiaries, or their securities. The ratings assigned by the rating agencies to LKE and its subsidiaries and their respective securities may be found, without charge, on each of the respective ratings agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of PPL's then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions.

- Moody's affirmed all of the ratings for LKE and all of its rated subsidiaries;
- S&P revised the outlook for LKE, LG&E and KU and lowered the issuer and senior unsecured ratings of LKE and the issuer, senior secured and short-term ratings of LG&E and KU; and
- Fitch affirmed all of the ratings for LKE and all of its rated subsidiaries.

In April 2011, S&P took the following actions following the completion of PPL's acquisition of WPD Midlands:

- revised the outlook for LKE and all of its rated subsidiaries;
- raised the short-term ratings of LG&E and KU; and
- affirmed all of the long-term ratings for LKE and its rated subsidiaries.

In May 2011, S&P downgraded the long-term rating of four series of pollution control bonds issued on behalf of KU by one notch in connection with the substitution of the letters of credit enhancing these four bonds.

In September 2011, Moody's affirmed the issuer ratings for LG&E and KU and all of the ratings for LKE.

In November 2011, Moody's and S&P affirmed all of their ratings for LKE and all of its rated subsidiaries.

In December 2011, Fitch affirmed all of the ratings for LKE and all of its rated subsidiaries.

Ratings Triggers

LKE and its subsidiaries have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, commodity transportation and storage and interest rate instruments, which contain provisions requiring LKE and its subsidiaries to post additional collateral, or permitting the counterparty to terminate the contract, if LKE's or the subsidiaries' credit rating were to fall below investment grade. See Note 19 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at December 31, 2011. At December 31, 2011, if LKE's or its subsidiaries' credit ratings had been below investment grade, the maximum amount that LKE would have been required to post as additional collateral to counterparties was $84 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation and marketing operations, gas supply and interest rate contracts.

Off-Balance Sheet Arrangements

LKE has entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 15 to the Financial Statements for a discussion of these agreements.

Risk Management

Market Risk

LKE is exposed to market risk from equity instruments, interest rate instruments and commodity instruments, as discussed below. However, regulatory cost recovery mechanisms significantly mitigate those risks. See Notes 1, 18 and 19 to the Financial Statements for information about LKE's risk management objectives, valuation techniques and accounting designations.

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

Commodity Price Risk (Non-trading)

LG&E's and KU's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E and KU are subject to commodity price risk for only a small portion of on-going business operations. LKE conducts energy trading and risk management activities to maximize the value of the physical assets at times when the assets are not required to serve LG&E's and KU's customers. LKE managed its energy commodity risk using derivative instruments, including swaps and forward contracts. See Note 19 to the Financial Statements for additional disclosures.

The balance and change in net fair value of LKE's commodity derivative contracts for the periods ended December 31, 2011, 2010, and 2009 are shown in the table below.

	Gains (Losses)			
	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Fair value of contracts outstanding at the beginning of the period	$ (2)			$ 2
Contracts realized or otherwise settled during the period	(3)		$ 3	10
Fair value of new contracts entered into during the period			(4)	1
Other changes in fair value (a)	5	$ (2)	1	(13)
Fair value of contracts outstanding at the end of the period	$	$ (2)	$	$

(a) Represents the change in value of outstanding transactions and the value of transactions entered into and settled during the period.

Interest Rate Risk

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

At December 31, 2011 and 2010, LKE's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

LKE is also exposed to changes in the fair value of its debt portfolio. LKE estimated that a 10% decrease in interest rates at December 31, 2011, would increase the fair value of its debt portfolio by $125 million compared with $123 million at December 31, 2010.

LKE had the following interest rate hedges outstanding at:

	December 31, 2011			December 31, 2010		
	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates
Economic hedges						
Interest rate swaps (b)	$ 179	$ (60)	$ (4)	$ 179	$ (34)	$ (7)

(a) Includes accrued interest.
(b) LKE utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While LKE is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at December 31, 2011 mature through 2033.

Credit Risk

LKE is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. LKE maintains credit policies and procedures to limit counterparty credit risk including evaluating credit ratings and financial information along with having certain counterparties post margin if the credit exposure exceeds certain thresholds. LKE is exposed to potential losses as a result of nonpayment by customers. LKE maintains an allowance for doubtful accounts based on a historical charge-off percentage for retail customers. Allowances for doubtful accounts from wholesale and municipal customers and for miscellaneous receivables are based on specific identification by management. Retail, wholesale and municipal customer accounts are written-off after four months of no payment activity. Miscellaneous receivables are written-off as management determines them to be uncollectible.

Certain of LKE's derivative instruments contain provisions that require it to provide immediate and on-going collateralization of derivative instruments in net liability positions based upon LKE's credit ratings from each of the major credit rating agencies. See Notes 18 and 19 to the Financial Statements for information regarding exposure and the risk management activities.

Related Party Transactions

LKE is not aware of any material ownership interest or operating responsibility by senior management of LKE, LG&E or KU in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with LKE. See Note 16 to the Financial Statements for additional information on related party transactions between LKE and affiliates.

Environmental Matters

Protection of the environment is a major priority for LKE and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to LKE's air emissions, water discharges and the management of hazardous and solid waste, among other areas, and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc.; and may impact the costs for their products or their demand for LKE's services. See "Item 1. Business - Environmental Matters" and Note 15 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Note 24 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). LKE's senior management has reviewed these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them, with PPL's Audit Committee.

1) Revenue Recognition - Unbilled Revenue

Revenues related to the sale of energy are recorded when service is rendered or when energy is delivered to customers. Because customers of LG&E's and KU's retail operations are billed on cycles which vary based on the timing of the actual reading of their electric and gas meters, LKE records estimates for unbilled revenues at the end of each reporting period. Such unbilled revenue amounts reflect estimates of the amount of energy delivered to customers since the date of the last reading of their meters. These unbilled revenues reflect consideration of estimated usage by customer class, the effect of different rate schedules, changes in weather, and where applicable, the impact of weather normalization or other regulatory provisions of rate structures. In addition to the unbilled revenue accrual resulting from cycle billing, LKE makes additional accruals resulting from the timing of customer bills. The accrual of unbilled revenues in this manner properly matches revenues and related costs. At December 31, 2011 and 2010 LKE had unbilled revenue balances of $146 million and $170 million.

2) Price Risk Management

See "Financial Condition - Risk Management" above.

3) Defined Benefits

LKE and certain of its subsidiaries sponsor and participate in qualified funded and non-qualified unfunded defined benefit pension plans. LKE also sponsors a funded other postretirement benefit plan. These plans are applicable to the majority of the employees of LKE and its subsidiaries. LKE records an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to OCI or regulatory assets or liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 13 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

Certain assumptions are made by LKE and certain of its subsidiaries regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in OCI or regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. These amounts in regulatory assets and liabilities are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- Discount Rate - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.

- Expected Long-term Return on Plan Assets - Management projects the long-term rates of return on plan assets based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. These projected returns reduce the net benefit costs LKE records currently.

- Rate of Compensation Increase - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.

- Health Care Cost Trend Rate - Management projects the expected increases in the cost of health care.

In selecting a discount rate for its defined benefit plans LKE starts with a cash flow analysis of the expected benefit payment stream for its plans. In 2010, these plan-specific cash flows were matched against a spot-rate yield curve to determine the assumed discount rate. To develop the spot-rate yield curve, the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, served as the base from which those with the lowest and highest yields were eliminated to develop an appropriate subset of bonds from which the ultimate yield curve would be built. At that time, management believed this plan-specific cash flow matching model represented the best available tool for estimating the discount rate. Beginning in 2011, LKE utilized a new tool that enhanced this plan-specific cash flow matching methodology by primarily matching the plan-specific cash flows against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the same universe of Aa-rated corporate bonds from which those with the lowest and highest yields were eliminated, similar to the yield curve approach. Individual bonds are then selected based on the timing of each plan's cash flows and parameters are established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed. This process more accurately approximated the process of settlement of the obligations which better aligned with the objective of selecting the discount rate. At December 31, 2011 LKE decreased the discount rate for its pension plans from 5.49% to 5.08% and decreased the discount rate for its other postretirement benefit plan from 5.12% to 4.78%.

The expected long-term rates of return for LKE's defined benefit pension plans and defined other postretirement benefit plan have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. LKE management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption. At December 31, 2011, LKE's expected return on plan assets was 7.25%.

In selecting a rate of compensation increase, LKE considers past experience in light of movements in inflation rates. At December 31, 2011, LKE's rate of compensation increase changed from 5.25% to 4.00%.

In selecting health care cost trend rates LKE considers past performance and forecasts of health care costs. At December 31, 2011, LKE's health care cost trend rates were 8.50% for 2012, gradually declining to 5.50% for 2019.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and OCI or regulatory assets and liabilities for LKE. While the charts below reflect either an increase or decrease in each assumption, the inverse of the change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and OCI or regulatory assets and liabilities for LKE by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption and does not include income tax effects.

At December 31, 2011, the defined benefit plans were recorded as follows:

Pension liabilities (a)	$	362
Other postretirement benefit liabilities		156

(a) Amount includes current and noncurrent portions.

The following chart reflects the sensitivities in the December 31, 2011 Balance Sheet associated with a change in certain assumptions based on LKE's primary defined benefit plans.

	Increase (Decrease)						
Actuarial assumption	**Change in assumption**		**Impact on defined benefit liabilities**		**Impact on OCI**		**Impact on regulatory assets**
Discount Rate	(0.25)%	$	51	$	(18)	$	33
Rate of Compensation Increase	0.25%		11		(6)		5
Health Care Cost Trend Rate (a)	1%		6		(1)		5

(a) Only impacts other postretirement benefits.

In 2011, LKE recognized net periodic defined benefit costs charged to operating expense of $51 million. This amount represents a $6 million decrease from 2010. This decrease in expense was primarily attributable to the increase in the expected return on plan assets resulting from the $150 million pension contribution in January 2011.

The following chart reflects the sensitivities in the 2011 Statement of Income (excluding income tax effects) associated with a change in certain assumptions based on LKE's primary defined benefit plans.

Actuarial assumption	**Change in assumption**		**Impact on defined benefit costs**
Discount Rate	(0.25)%	$	5
Expected Return on Plan Assets	(0.25)%		2
Rate of Compensation Increase	0.25%		2
Health Care Cost Trend Rate (a)	1%		

(a) Only impacts other postretirement benefits.

4) Asset Impairment

Impairment analyses are performed for long-lived assets that are subject to depreciation or amortization whenever events or changes in circumstances indicate that a long-lived asset's carrying value may not be recoverable. For these long-lived assets classified as held and used, such events or changes in circumstances are:

- a significant decrease in the market price of an asset;
- a significant adverse change in the extent or manner in which an asset is being used or in its physical condition;
- a significant adverse change in legal factors or in the business climate;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset;
- a current-period operating or cash flow loss combined with a history of losses or a forecast that demonstrates continuing losses; or
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For a long-lived asset classified as held and used, impairment is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying value to its estimated fair value. Management must make significant judgments to estimate future cash flows including the useful lives of long-lived assets, the fair value of the assets and management's intent to use the assets. Alternate courses of action are considered to recover the carrying value of a long-lived asset, and estimated cash flows from the "most likely" alternative are used to assess impairment whenever one alternative is clearly the most likely outcome. If no alternative is clearly the most likely, then a probability-weighted approach is used taking into consideration estimated cash flows from the alternatives. For assets tested for impairment as of the balance sheet date, the estimates of future cash flows used in that test consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of a future sale of the assets. That assessment is not revised based on events that occur after the balance sheet date. Changes in assumptions and estimates could result in significantly different results than those identified and recorded in the financial statements.

For a long-lived asset classified as held for sale, impairment exists when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If the asset (disposal group) is impaired, an impairment loss is recorded to adjust the carrying amount to its fair value less cost to sell. A gain is recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative impairment previously recognized.

For determining fair value, quoted market prices in active markets are the best evidence. However, when market prices are unavailable, LKE considers all valuation techniques appropriate under the circumstances and for which market participant inputs can be obtained. Generally discounted cash flows are used to estimate fair value, which incorporates market participant inputs when available. Discounted cash flows are calculated by estimating future cash flow streams and applying appropriate discount rates to determine the present value of the cash flow streams.

In 2011, LKE did not recognize an impairment of any long-lived assets.

Goodwill is tested for impairment at the reporting unit level. LKE's reporting unit has been determined to be at the operating segment level. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying value of the reporting unit may be greater than the unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of. Goodwill is tested for impairment using a two-step approach. In step 1, LKE identifies a potential impairment by comparing the estimated fair value of LKE (the goodwill reporting unit) to its carrying value, including goodwill, on the measurement date. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.

The second step requires a calculation of the implied fair value of goodwill which is determined in the same manner as the amount of goodwill in a business combination. That is, the estimated fair value is allocated to all of LKE's assets and liabilities as if LKE had been acquired in a business combination and the estimated fair value of LKE was the price paid. The excess of the estimated fair value of LKE over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of goodwill is then compared with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of the reporting unit's goodwill.

LKE tested goodwill for impairment in the fourth quarter of 2011 and no impairment was recognized. Management used both discounted cash flows and market multiples to estimate the fair value of LKE, which involved the use of significant estimates and assumptions. Applying an appropriate weighting to both the discounted cash flow and market multiple valuations, a decrease in the forecasted cash flows of 10%, an increase in the discount rate by 25 basis points, or a 10% decrease in the multiples would not have resulted in an impairment of goodwill.

5) Loss Accruals

Losses are accrued for the estimated impacts of various conditions, situations or circumstances involving uncertain or contingent future outcomes. For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that a loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

The accounting aspects of estimated loss accruals include (1) the initial identification and recording of the loss, (2) the determination of triggering events for reducing a recorded loss accrual and (3) the ongoing assessment as to whether a recorded loss accrual is sufficient. All three of these aspects require significant judgment by management. Internal expertise and outside experts (such as lawyers and engineers) are used, as necessary to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

In 2011, no significant adjustments were made to LKE's existing contingencies. See Note 15 to the Financial Statements for commitment and contingency disclosures.

Certain other events have been identified that could give rise to a loss, but that do not meet the conditions for accrual. Such events are disclosed, but not recorded, when it is reasonably possible that a loss has been incurred. Accounting guidance defines "reasonably possible" as cases in which "the future event or events occurring is more than remote, but less than likely to occur." See Note 15 to the Financial Statements, for disclosure of other potential loss contingencies that have not met the criteria for accrual.

When an estimated loss is accrued, the triggering events for subsequently adjusting the loss accrual are identified, where applicable. The triggering events generally occur when the contingency has been resolved and the actual loss is paid or written off, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the adjustment of certain recorded loss accruals:

- Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted, a better estimate of the allowance is determined or underlying amounts are ultimately collected.

- Environmental and other litigation contingencies are reduced when the contingency is resolved, LKE makes actual payments, a better estimate of the loss is determined or the loss is no longer considered probable.

Loss accruals are reviewed on a regular basis to assure that the recorded potential loss exposures are appropriate. This involves ongoing communication and analyses with internal and external legal counsel, engineers, operation management and other parties.

6) Asset Retirement Obligations

LKE is required to recognize a liability for legal obligations associated with the retirement of long-lived assets. The initial obligation is measured at its estimated fair value. An equivalent amount is recorded as an increase in the value of the capitalized asset and allocated to expense over the useful life of the asset. Until the obligation is settled, the liability is increased, through the recognition of accretion expense in the Consolidated Statements of Income, for changes in the obligation due to the passage of time. The accretion and depreciation are offset with a regulatory credit on the income statement, such that there is no earnings impact. The regulatory asset created by the regulatory credit is relieved when the ARO has been settled. An ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. See Note 21 to the Financial Statements for related disclosures.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that considers estimated retirement costs in current period dollars that are inflated to the anticipated retirement date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of various AROs and the related assets, are reviewed periodically to ensure that any material changes are incorporated into the estimate of the obligations. Any change to the capitalized asset is amortized over the remaining life of the associated long-lived asset.

At December 31, 2011, LKE had AROs comprised of current and noncurrent amounts, totaling $118 million recorded on the Balance Sheet. Of the total amount, $74 million, or 63%, relates to LKE's ash ponds, landfills and natural gas mains. The most significant assumptions surrounding AROs are the forecasted retirement costs, the discount rates and the inflation rates. A variance in the forecasted retirement costs, the discount rates or the inflation rates could have a significant impact on the ARO liabilities.

The following chart reflects the sensitivities related to LKE's ARO liabilities for ash ponds, landfills and natural gas mains at December 31, 2011:

	Change in Assumption	Impact on ARO Liability
Retirement Cost	10%	$ 7
Discount Rate	(0.25)%	4
Inflation Rate	0.25%	4

7) Income Taxes

Significant management judgment is required in developing LKE's provision for income taxes primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and the determination of deferred tax assets, liabilities and valuation allowances.

Significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. LKE evaluates its tax positions following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization upon settlement that exceeds 50%. LKE's management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, LKE's uncertain tax positions are reassessed by considering information known at the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position maybe de-recognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future.

At December 31, 2011, LKE's existing reserve exposure to either increases or decreases in unrecognized tax benefits during the next 12 months is less than $1 million. This change could result from subsequent recognition, de-recognition and/or changes in the measurement of uncertain tax positions. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized to account for an uncertain tax position. See Note 5 to the Financial Statements for related disclosures.

8) Regulatory Assets and Liabilities

LKE's subsidiaries, LG&E and KU, are cost-based rate-regulated utilities. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC, the KPSC, the VSCC and the TRA. See Note 6 to the Financial Statements for related disclosures.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to other regulated entities and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, then asset write-off would be required to be recognized in operating income. Additionally, the regulatory agencies can provide flexibility in the manner and timing of the depreciation of PP&E and amortization of regulatory assets.

At December 31, 2011 and 2010, LKE had regulatory assets of $629 million and $610 million. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices. At December 31, 2011 and 2010, LKE had regulatory liabilities of $1,023 million and $1,108 million.

Other Information

PPL's Audit Committee has approved the independent auditor to provide audit, tax and other services permitted by Sarbanes-Oxley and SEC rules. The audit services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews. See "Item 14. Principal Accounting Fees and Services" for more information.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information provided in this Item 7 should be read in conjunction with LG&E's Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of LG&E and its business strategy. "Financial and Operational Developments" includes a review of Net Income and discusses certain events that are important to understanding LG&E's results of operations and financial condition.

- "Results of Operations" provides a summary of LG&E's earnings and a description of key factors expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on LG&E's Statements of Income, comparing 2011, 2010 and 2009.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of LG&E's liquidity position and credit profile. This section also includes a discussion of rating agency decisions and capital expenditure projections.

- "Financial Condition - Risk Management" provides an explanation of LG&E's risk management programs relating to market and credit risk.

- " Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of LG&E and that require its management to make significant estimates, assumptions and other judgments of matters inherently uncertain.

Overview

Introduction

LG&E, headquartered in Louisville, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy and distribution and sale of natural gas in Kentucky. LG&E and its affiliate, KU, are wholly owned subsidiaries of LKE. LKE, a limited liability company, became a wholly owned subsidiary of PPL when PPL acquired all of LKE's interests from E.ON US Investments Corp. on November 1, 2010. Following the acquisition, both LG&E and KU continue operating as subsidiaries of LKE, which is now an intermediary holding company in PPL's group of companies. Refer to "Item 1. Business - Background" for a description of LG&E's business.

Business Strategy

LG&E's overall strategy is to provide reliable, safe and competitively priced energy to its customers.

A key objective for LG&E is to maintain a strong credit profile through managing financing costs and access to credit markets. LG&E continually focuses on maintaining an appropriate capital structure and liquidity position.

Successor and Predecessor Financial Presentation

LG&E's Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010, and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, which are discussed in Note 1 to the Financial Statements. The cost bases of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down basis of accounting, which was used to record the fair value adjustments of assets and liabilities at the acquisition date. Consequently, the financial position, results of operations and cash flows for the Successor periods are not comparable to the Predecessor periods; however, the core operations of LG&E have not changed as a result of the acquisition.

Financial and Operational Developments

Net Income

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Net Income	$ 124	$ 19	$ 109	$ 95

The operating results for 2011 and 2010 include the effect of LG&E's base rate increases, which became effective August 1, 2010, partially offset by net cost increases, which have not yet been reflected in the rates charged by LG&E. The operating results for the ten months ended October 31, 2010 also include $19 million of other income associated with the establishment of regulatory assets for previously recorded losses on interest rate swaps. The operating results for 2009 were impacted by $18 million of derivative gains.

See "Results of Operations" below for further discussion and analysis of the results of operations.

TC2

LG&E and KU constructed a 732 MW summer capacity coal-fired unit, TC2, which is jointly owned by LG&E (14.25%) and KU (60.75%), together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency (combined 25%). With limited exceptions, LG&E and KU took care, custody and control of TC2 in January 2011. LG&E and KU and the construction contractor further amended the construction agreement to provide that the contractor will complete certain actions to identify and complete any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. A number of remaining issues regarding these matters are still under discussion with the contractor. See Notes 8 and 15 to the Financial Statements for additional information.

Registered Debt Exchange Offer by LG&E

In April 2011, LG&E filed a Registration Statement with the SEC, related to an offer to exchange certain first mortgage bonds issued in November 2010, in transactions not subject to registration under the Securities Act of 1933, with similar but registered securities. The 2011 Registration Statement became effective in June 2011, and the exchange was completed in July 2011 with all of the first mortgage bonds being exchanged. See Note 7 to the Financial Statements and LG&E's 2011 Registration Statement for additional information.

CSAPR

In July 2011, the EPA signed the CSAPR, which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010, and made revisions to the rule on February 7, 2012. This rule applies to the Kentucky coal plants. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions.

In December 2011, the U.S. Court of Appeals for the District of Columbia (Court) stayed implementation of the CSAPR and left CAIR in effect pending a final resolution on the merits of the validity of the rule. Oral argument on the various challenges to the CSAPR is scheduled for April 2012, and a final decision on the validity of the rule could be issued as early as May 2012.

With respect to LG&E's coal-fired generating plants, the stay of the CSAPR will initially only impact the unit dispatch order. With the return of the CAIR and LG&E's significant number of sulfur dioxide allowances, those units will be dispatched with lower operating cost, but slightly higher sulfur dioxide and nitrogen oxide emissions. However, a key component of the Court's final decision, even if the CSAPR is upheld, will be whether the ruling delays the implementation of the CSAPR by one year for both Phases I and II, or instead still requires the significant sulfur dioxide and nitrogen oxide reductions associated with Phase II to begin in 2014. LG&E's CSAPR compliance strategy is based on over-compliance during Phase I to generate allowances sufficient to cover the expected shortage during the first two years of Phase II (2014 and 2015) when additional pollution control equipment will be installed. Should Phase I of the CSAPR be shortened to one year, it will be more difficult and costly to provide enough excess allowances in one year to meet the shortage projected for 2014 and 2015.

See Note 15 to the Financial Statements for additional information on the CSAPR.

Pending Bluegrass CTs Acquisition and NGCC Construction

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run plant site. In conjunction with this request and to meet new, stricter EPA regulations, LG&E anticipates retiring three older coal-fired electric generating units, located at the Cane Run plant, which have a combined summer rating of 563 MW. LG&E and KU also requested approval to purchase the Bluegrass CTs, which are expected to provide up to 495 MW of peak generation supply.

LG&E anticipates that its share of the NGCC construction and the acquisition of the Bluegrass CTs could require up to $300 million in capital costs including related transmission projects. Formal requests for recovery of the costs associated with the NGCC construction and the acquisition of the Bluegrass CTs were not included in the CPCN filing with the KPSC but are expected to be included in future rate proceedings. The KPSC issued an Order on the procedural schedule in the CPCN filing that has discovery, scheduled through early February 2012. A KPSC order on the CPCN filing is anticipated in the second quarter of 2012. See Note 8 to the Financial Statements for additional information.

ECR Filing - Environmental Upgrades

In June 2011, in order to achieve compliance with new and pending mandated federal EPA regulations, LG&E filed an ECR plan with the KPSC requesting approval to install environmental upgrades for certain of its coal-fired plants along with the recovery of the expected $1.4 billion in associated capital costs, as well as operating expenses incurred. The ECR plan detailed upgrades that will be made to certain of LG&E's coal-fired generating plants to continue to be compliant with EPA regulations.

In November 2011, LG&E filed a unanimous settlement agreement, stipulation and recommendation with the KPSC. In December 2011, LG&E received KPSC approval in its proceedings relating to the ECR plan. The KPSC Order approved the terms of the November 2011 settlement agreement entered into between LG&E and the parties to the ECR proceedings. The KPSC Order authorized the installation of environmental upgrades at certain plants during 2012-2016 representing approximate capital costs of $1.4 billion at LG&E. In connection with the approved projects, the KPSC Order allows recovery through the ECR rate mechanism of the capital costs and operating expenses of the projects and granted CPCN for their construction. The KPSC Order also confirmed an existing 10.63% authorized return on equity for projects remaining from earlier ECR plans and provided for an authorized return on equity of 10.10% for the approved projects in the 2011 ECR proceedings. See Note 6 to the Financial Statements for additional information.

Storm Recovery

In August 2011, a strong storm hit LG&E's service area causing significant damage and widespread outages for approximately 139,000 customers. LG&E filed an application with the KPSC in September 2011 requesting approval of a regulatory asset recorded to defer, for future recovery, $8 million in incremental operation and maintenance expenses related to the storm restoration. An Order was received in December 2011 granting regulatory accounting treatment, while recovery of the regulatory asset will be determined within the next base rate case.

In September 2009, the KPSC approved the deferral of $44 million of costs associated with a severe ice storm that occurred in January 2009 and a wind storm that occurred in February 2009. Additionally, in December 2008, the KPSC approved the deferral of $24 million of costs associated with high winds from the remnants of Hurricane Ike in September 2008. LG&E received approval in its 2010 base rate case to recover these regulatory assets over a ten-year period beginning August 2010.

Results of Operations

As previously noted, LG&E's results for the time periods after October 31, 2010 are on a basis of accounting different from its results for time periods prior to November 1, 2010. When discussing LG&E's results of operations material differences resulting from the different basis of accounting will be isolated for purposes of comparability. See "Overview - Successor and Predecessor Financial Presentation" for further information.

The utility business is affected by seasonal weather. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. Revenue and earnings are generally higher during the first and third quarters and lower during the second quarter due to weather.

The following table summarizes the significant components of net income for 2011, 2010, and 2009 and the changes therein:

Earnings

	Successor	% Change	Combined	Successor	Predecessor	% Change	Predecessor
	Year Ended December 31, 2011	2011 vs. 2010	Year Ended December 31, 2010	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	2010 vs. 2009	Year Ended December 31, 2009
Operating Revenues	$ 1,364	4	$ 1,311	$ 254	$ 1,057	3	$ 1,272
Fuel	350	(4)	366	60	306	12	328
Energy purchases	245	12	218	63	155	(28)	302
Other operation and maintenance	363	4	348	67	281	8	323
Depreciation	147	7	138	23	115	1	136
Taxes, other than income	18	38	13	1	12	(19)	16
Total Operating Expenses	1,123	4	1,083	214	869	(2)	1,105
Other Income (Expense) - net	(2)	(114)	14	(3)	17	(26)	19
Interest Expense	44	(4)	46	8	38	5	44
Income Taxes	71	4	68	10	58	45	47
Net Income	$ 124	(3)	$ 128	$ 19	$ 109	35	$ 95

The changes in the components of Net Income between these periods were due to the following factors. The results are adjusted for certain items that management considers special. See additional detail of this special item below.

	2011 vs. 2010	2010 vs. 2009
Margin	$ 39	$ 87
Other operation and maintenance	(10)	(23)
Depreciation	(13)	(6)
Taxes, other than income	(5)	3
Other Income (Expense) - net	(16)	(5)
Interest Expense	2	(2)
Income Taxes	(3)	(21)
Special Items	2	
	$ (4)	$ 33

The net unrealized gains (losses) on contracts that economically hedge anticipated cash flows are considered special items by management. The after-tax amounts for 2011 and for 2010 were insignificant.

- See "Statement of Income Analysis - Margin - Changes in Non-GAAP Financial Measures" for an explanation of margin.

- Other operation and maintenance increased in 2011 compared with 2010, primarily due to higher distribution maintenance costs of $8 million and higher administrative and general costs of $4 million. Distribution maintenance costs increased due to amortization of storm restoration related costs, together with a hazardous tree removal project initiated in August 2010.

  Other operation and maintenance increased in 2010 compared with 2009, primarily due to higher steam maintenance costs of $9 million, administrative and general costs of $4 million, other generation maintenance costs of $3 million, and transmission operation costs of $2 million. Steam maintenance costs increased due to higher boiler and electric maintenance costs related to outage work.

- Depreciation expense was $7 million higher in 2011 compared with 2010, due to TC2 commencing dispatch in January 2011.

- Other Income (Expense) - net decreased in 2011 compared with 2010, primarily due to $19 million of other income from the establishment of a regulatory asset for previously recorded losses on interest rate swaps in 2010.

- Income taxes increased in 2010 compared with 2009, primarily due to the $21 million impact of higher pre-tax income.

2012 Outlook

LG&E projects lower earnings in 2012 compared with 2011, as revenue increases are not expected to offset operating expense increases, including depreciation, due to more plant in service. Actual results will be dependent on the effects of the economy and the impact of weather on retail sales among other variables. As a result of the stay out provision established in the settlement of the PPL-LKE acquisition, LG&E is generally unable to implement an increase in its base rates before January 1, 2013.

Earnings in 2012 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 7, Notes 6 and 15 to the Financial Statements and "Business," and "Risk Factors" in this Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margin

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margin." Margin is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margin is a single financial performance measure of LG&E's operations. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expenses and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. As a result, this measure represents the net revenues from LG&E's operations. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared with budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margin" as defined by LG&E for 2011, 2010 and 2009.

	2011 Successor		
	Margin	Other (a)	Operating Income (b)
Operating Revenues	$ 1,363	$ 1	$ 1,364
Operating Expenses			
Fuel	350		350
Energy purchases	245		245
Other operation and maintenance	42	321	363
Depreciation	2	145	147
Taxes, other than income		18	18
Total Operating Expenses	639	484	1,123
Total	$ 724	$ (483)	$ 241

	Successor			Predecessor		
	Two Months Ended December 31, 2010			Ten Months Ended October 31, 2010		
	Margin	Other (a)	Operating Income (b)	Margin	Other (a)	Operating Income (b)
Operating Revenues	$ 255	$ (1)	$ 254	$ 1,057		$ 1,057
Operating Expenses						
Fuel	60		60	306		306
Energy purchases	63		63	155		155
Other operation and maintenance	9	58	67	28	$ 253	281
Depreciation		23	23	6	109	115
Taxes, other than income		1	1		12	12
Total Operating Expenses	132	82	214	495	374	869
Total	$ 123	$ (83)	$ 40	$ 562	$ (374)	$ 188

	2009 Predecessor					
	Margin		Other (a)		Operating Income (b)	
Operating Revenues	$	1,273	$	(1)	$	1,272
Operating Expenses						
Fuel		328				328
Energy purchases		302				302
Other operation and maintenance		35		288		323
Depreciation		10		126		136
Taxes, other than income				16		16
Total Operating Expenses		675		430		1,105
Total	$	598	$	(431)	$	167

(a) Represents amounts excluded from Margin.
(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins were higher by $39 million for 2011 compared with 2010. New KPSC rates went into effect on August 1, 2010, contributing an additional $48 million in operating revenue over the prior year. Partially offsetting the rate increase were lower retail volumes resulting from weather and economic conditions.

Other Operation and Maintenance

Changes in other operation and maintenance expense were due to the following:

	2011 vs. 2010		2010 vs. 2009	
Fuel for generation (a)	$	5	$	1
Distribution maintenance (b)		8		1
Steam maintenance (c)		(5)		9
Transmission operation		1		2
Administrative and general		4		4
Other generation maintenance		(2)		3
Other		4		5
Total	$	15	$	25

(a) Fuel handling costs are included in fuel for electric generation on the Statements of Income for the Successor's periods and are in other operation and maintenance expense on the Statements of Income for the Predecessor's periods.
(b) Distribution maintenance costs increased in 2011 compared with 2010, primarily due to amortization of storm restoration-related costs along with a hazardous tree removal project initiated in August 2010 and an increase in pipeline integrity work.
(c) Steam maintenance costs decreased in 2011 compared with 2010, primarily due to the timing of scheduled maintenance outages and non-outage boiler maintenance.

Steam maintenance costs increased in 2010 compared with 2009, primarily due to higher boiler and electric maintenance costs related to outage work.

Depreciation

Changes in depreciation were due to the following:

	2011 vs. 2010		2010 vs. 2009	
TC2 (dispatch began in January 2011)	$	7		
Other		2	$	2
Total	$	9	$	2

Taxes, Other Than Income

Taxes, other than income increased by $5 million in 2011 compared with 2010 primarily due to a $4 million state coal tax credit that was applied to 2010 property taxes. The remaining increase was due to higher assessments, primarily from significant property additions.

Other Income (Expense) - net

Changes in other income (expense) - net were due to the following:

	2011 vs. 2010	2010 vs. 2009
Net derivative gains (losses) (a)		$ (18)
Losses on interest rate swaps (b)	$ (19)	19
Other	3	(6)
Total	$ (16)	$ (5)

(a) Net derivative gains and losses includes the unrealized gains and losses on interest rate swaps not designated as hedging instruments and the ineffective portion of interest rate swaps designated and qualifying as a cash flow hedge.
(b) Other income in 2010 resulted from the establishment of a regulatory asset for previously recorded losses on interest rate swaps, which is included in "Net derivative gains and losses" within Note 17 to the Financial Statements.

Interest Expense

The changes in interest expense were due to:

	2011 vs. 2010	2010 vs. 2009
Interest rates (a)	$ (7)	$ (2)
Long-term debt balances (b)	2	
Other	3	4
Total	$ (2)	$ 2

(a) Interest rates on the first mortgage bonds issued in November 2010 were lower than the rates on the loans from Fidelia Corporation in place through October 2010.
(b) LG&E's long-term debt principal balance was $213 million higher as of December 31, 2010 compared with December 31, 2009 and did not change as of December 31, 2010 compared with December 31, 2011. The higher interest expense in 2011 was the result of lower long-term debt balances for the first ten months of 2010.

Income Taxes

Changes in income taxes were due to the following:

	2011 vs. 2010	2010 vs. 2009
Higher pre-tax income		$ 21
Other	$ 3	
Total	$ 3	$ 21

Financial Condition

Liquidity and Capital Resources

LG&E expects to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents and its credit facilities.

LG&E's cash flows from operations and access to cost-effective bank and capital markets are subject to risks and uncertainties including, but not limited to:

- changes in market prices for electricity;
- changes in commodity prices that may increase the cost of producing power or decrease the amount LG&E receives from selling power;
- operational and credit risks associated with selling and marketing products in the wholesale power markets;
- unusual or extreme weather that may damage LG&E's transmission and distribution facilities or affect energy sales to customers;
- reliance on transmission and distribution facilities that LG&E does not own or control to deliver its electricity and natural gas;
- unavailability of generating units (due to unscheduled or longer-than-anticipated generation outages, weather and natural disasters) and the resulting loss of revenues and additional costs of replacement electricity;
- the ability to recover and the timeliness and adequacy of recovery of costs associated with regulated utility businesses;
- costs of compliance with existing and new environmental laws;
- any adverse outcome of legal proceedings and investigations with respect to LG&E's current and past business activities;
- deterioration in the financial markets that could make obtaining new sources of bank and capital markets funding more difficult and more costly; and

- a downgrade in LG&E's credit ratings that could adversely affect its ability to access capital and increase the cost of credit facilities and any new debt.

See "Item 1A. Risk Factors" for further discussion of risks and uncertainties affecting LG&E's cash flows.

At December 31, LG&E had the following:

	Successor		Predecessor
	2011	2010	2009
Cash and cash equivalents	$ 25	$ 2	$ 5
Short-term investments (a)		163	
	$ 25	$ 165	$ 5
Short-term debt (b)		$ 163	

(a) Represents tax-exempt bonds issued by Louisville/Jefferson County, Kentucky, on behalf of LG&E that were purchased from the remarketing agent in 2008. Such bonds were remarketed to unaffiliated investors in January 2011. See Note 7 to the Financial Statements for additional information.
(b) Represents borrowings under LG&E's $400 million syndicated credit facility. See Note 7 to the Financial Statements for additional information.

The changes in LG&E's cash and cash equivalents position resulted from:

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Net cash provided by (used in) operating activities	$ 321	$ (8)	$ 189	$ 309
Net cash provided by (used in) investing activities	(38)	(63)	(107)	(176)
Net cash provided by (used in) financing activities	(260)	69	(83)	(132)
Net Increase (Decrease) in Cash and Cash Equivalents	$ 23	$ (2)	$ (1)	$ 1

Auction Rate Securities

At December 31, 2011, LG&E's tax-exempt revenue bonds that are in the form of auction rate securities and total $135 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the period ended December 31, 2011, the weighted-average rate on LG&E's auction rate bonds in total was 0.24%.

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

Operating Activities

Net cash provided by operating activities increased by 77%, or $140 million, in 2011 compared with 2010, primarily as a result of:

- a decrease in working capital related to accounts receivable and unbilled revenues of $87 million primarily due to the timing of cash receipts and colder weather in December 2010 as compared with December 2009 and milder weather in December 2011 as compared with December 2010;
- an increase in net income adjusted for non-cash effects of $33 million (the recording of a regulatory asset for previously recorded losses on interest rate swaps of $22 million, deferred income taxes and investment tax credits of $17 million, depreciation of $9 million and other noncash items of $6 million, partially offset by unrealized (gains) losses on derivatives of $14 million and defined benefit plans - expense of $3 million);
- a decrease in cash outflows of $32 million due to lower inventory levels in 2011 as compared with 2010 driven by $21 million due to lower coal burn as a result of unplanned outages at the Mill Creek plant, $8 million for fuel inventory purchased in 2010 for TC2 that was not used until 2011 when TC2 began dispatch and $6 million for decreases in gas storage volumes;
- a decrease in cash refunded to customers of $25 million due to prior period over-recoveries related to the gas supply clause filings in 2009; and
- a decrease in cash outflows related to accrued taxes of $22 million due to the timing of payments of accrued tax liabilities in 2011 and 2010; partially offset by
- an increase in discretionary defined benefit plan contributions of $44 million made in order to achieve LG&E's long-term funding requirements; and

- an increase in working capital related to accounts payable of $41 million, which was driven primarily by the timing of cash payments and a decrease in natural gas purchases of $18 million in 2011 as compared with 2010 due to a decrease in combustion turbine generation as a result of the dispatch of TC2 beginning in January 2011.

Net cash provided by operating activities decreased by 41%, or $128 million, in 2010 compared with 2009, primarily as a result of:

- an increase in working capital related to accounts receivable and unbilled revenues of $101 million primarily due to the timing of cash receipts and colder weather in December 2009 as compared with December 2008 and colder weather in December 2010 as compared with December 2009;
- an increase in cash outflows related to inventory of $57 million, primarily due to a nominal decrease in the market price of natural gas in 2010 and a significant decrease in the market price of natural gas in 2009;
- an increase in cash refunded to customers of $55 million due to prior period over-recoveries related to the gas supply clause filings;
- higher interest payments of $14 million due to an accelerated settlement with E.ON AG; and
- an increase in discretionary defined benefit plan contributions of $11 million made in order to achieve LG&E's long-term funding requirements; partially offset by
- an increase in net income adjusted for non-cash effects of $80 million (unrealized (gains) losses on derivatives of $47 million, deferred income taxes and investment tax credits of $19 million, depreciation of $2 million and other noncash items of $10 million, partially offset by the recording of a regulatory asset for previously recorded losses on interest rate swaps of $22 million and defined benefit plans - expense of $9 million);
- lower storm expenses of $45 million; and
- a decrease in cash outflows related to accrued taxes of $26 million due to the timing of payments of accrued tax liabilities in 2010 and 2009.

Investing Activities

The primary use of cash in investing activities in 2011, 2010 and 2009 was capital expenditures. See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2012 through 2016.

Net cash used in investing activities decreased by 78%, or $132 million, in 2011 compared with 2010, as a result of:

- proceeds from the sale of other investments of $163 million in 2011 and
- a decrease in capital expenditures of $28 million due primarily to TC2 being dispatched in 2011, partially offset by
- proceeds from the sale of assets of $48 million in 2010 and
- a decrease in restricted cash of $11 million.

Net cash used in investing activities decreased by 3%, or $6 million, in 2010 compared with 2009, as a result of:

- an increase in proceeds from the sale of assets of $45 million and
- an increase in restricted cash of $2 million in 2010, partially offset by
- an increase in capital expenditures of $34 million, primarily due to higher expenditures related to large-scale main replacements and the Ohio Falls redevelopment, partially offset by lower expenditures related to the construction of TC2 and major storm events that occurred in 2009, and
- proceeds on the settlement of derivatives of $7 million in 2009.

Financing Activities

Net cash used in financing activities was $260 million, in 2011 compared with $14 million in 2010, primarily as a result of changes in short-term debt.

In 2011, cash used in financing activities consisted of:

- a repayment on a revolving line of credit of $163 million;
- the payment of common stock dividends to LKE of $83 million;
- a net decrease in notes payable with affiliates of $12 million; and
- the payment of debt issuance and credit facility costs of $2 million.

Net cash used in financing activities was $14 million in 2010 compared with $132 million in 2009, primarily as a result of new long-term debt issued in excess of retirements, lower dividend payments and less repayment of notes payable with affiliates.

In the two months of 2010 following PPL's acquisition of LKE, cash provided by financing activities of the Successor consisted of:

- the issuance of first mortgage bonds of $531 million after discounts;
- the issuance of debt of $485 million to a PPL affiliate to repay debt due to an E.ON AG affiliate upon the closing of PPL's acquisition of LKE; and
- a draw on a revolving line of credit of $163 million; partially offset by
- the repayment of debt to an E.ON AG affiliate of $485 million upon the closing of PPL's acquisition of LKE;
- the repayment of debt to a PPL affiliate of $485 million upon the issuance of first mortgage bonds;
- a net decrease in notes payable with affiliates of $130 million; and
- the payment of debt issuance and credit facility costs of $10 million.

In the ten months of 2010 preceding PPL's acquisition of LKE, cash used in financing activities by the Predecessor consisted of:

- the payment of common stock dividends to LKE of $55 million and
- a net decrease in notes payable with affiliates of $28 million.

In 2009, cash used in financing activities by the Predecessor consisted of:

- the payment of common stock dividends to LKE of $80 million and
- a net decrease in notes payable with affiliates of $52 million.

See "Forecasted Sources of Cash" for a discussion of LG&E's plans to issue debt securities, as well as a discussion of credit facility capacity available to LG&E. Also see "Forecasted Uses of Cash" for a discussion of plans to pay dividends on common securities in the future, as well as maturities of long-term debt.

LG&E's long-term debt securities activity through December 31, 2011 was:

	Debt	
	Issuances	**Retirement**
Non-cash Exchanges (a)(b)		
LG&E First Mortgage Bonds	$ 535	$ (535)
Total Exchanged	$ 535	$ (535)

(a) Issuances are net of pricing discounts, where applicable and exclude the impact of debt issuance costs.
(b) In April 2011, LG&E filed a 2011 Registration Statement with the SEC related to offers to exchange securities issued in November 2010 in transactions not registered under the Securities Act of 1933 with similar but registered securities. The registration became effective in June 2011, and the exchanges were completed in July 2011 with all securities being exchanged.

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

Forecasted Sources of Cash

LG&E expects to continue to have sufficient sources of cash available in the near term, including various credit facilities and operating cash flow. LG&E expects to remarket $194 million of tax-exempt bonds that will be put back to LG&E in 2012. In February 2012, LG&E established a commercial paper program for up to $250 million to provide an additional financing source to fund its short-term liquidity needs. Commercial paper issuances will be supported by LG&E's Syndicated Credit Facility.

Credit Facilities

At December 31, 2011, LG&E's total committed borrowing capacity under its Syndicated Credit Facility and the use of this borrowing capacity were:

	Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
Syndicated Credit Facility (a) (b)	$ 400			$ 400

(a) In June 2011, LG&E amended its Syndicated Credit Facility such that the fees and the spread to benchmark interest rates for borrowings depend upon LG&E's senior secured long-term debt rating rather than the senior unsecured debt rating. Total borrowings outstanding under this facility decreased on a net basis by $163 million since December 31, 2010.

(b) In October 2011, LG&E amended its Syndicated Credit Facility. The amendment included extending the expiration date from December 2014 to October 2016. Under this facility LG&E continues to have the ability to make cash borrowings and to request the lenders to issue letters of credit.

The commitments under LG&E's Syndicated Credit Facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 5% of the total committed capacity available to LG&E.

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to $500 million at an interest rate based on a market index of commercial paper issues. At December 31, 2011, there was no balance outstanding. At December 31, 2010, $12 million was outstanding. The interest rate for the period ended December 31, 2010 was 0.25%.

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

Operating Leases

LG&E also has available funding sources that are provided through operating leases. LG&E leases office space, gas storage and certain equipment. These leasing structures provide LG&E additional operating and financing flexibility. The operating leases contain covenants that are typical for these agreements, such as maintaining insurance, maintaining corporate existence and timely payment of rent and other fees.

See Note 11 to the Financial Statements for further discussion of the operating leases.

Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, LG&E currently expects to incur future cash outflows for capital expenditures, various contractual obligations, payment of dividends on its common securities and possibly the purchase or redemption of a portion of debt securities.

Capital Expenditures

The table below shows LG&E's current capital expenditure projections for the years 2012 through 2016.

	Projected				
	2012	2013	2014	2015	2016
Construction expenditures					
Generating facilities (a)	$ 146	$ 102	$ 128	$ 123	$ 52
Distribution facilities	134	162	151	180	170
Transmission facilities (b)	27	57	34	30	25
Environmental	233	421	441	449	41
Other	14	22	20	27	25
Total Construction Expenditures	$ 554	$ 764	$ 774	$ 809	$ 313

(a) Includes approximately $200 million of currently estimable costs related to replacement generation units due to EPA regulations not recoverable through the ECR mechanism. LG&E expects to recover these costs over a period equivalent to the related depreciable lives of the assets through future rate proceedings.

(b) Includes approximately $70 million of currently estimable transmission costs related to replacement generation units. LG&E expects to recover these costs over a period equivalent to the related depreciable lives of the assets through future rate proceedings.

LG&E's capital expenditure projections for the years 2012 through 2016 total approximately $3.2 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes current estimates for LG&E's environmental projects related to new and anticipated EPA compliance standards. Actual costs may be significantly lower or higher depending on the final requirements and market conditions. Certain environmental compliance costs incurred by LG&E in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism.

LG&E plans to fund its capital expenditures in 2012 with cash on hand, cash from operations and short-term debt.

Contractual Obligations

LG&E has assumed various financial obligations and commitments in the ordinary course of conducting its business. At December 31, 2011, the estimated contractual cash obligations of LG&E were:

	Total	2012	2013 - 2014	2015 - 2016	After 2016
Long-term Debt (a)	$ 1,109			$ 250	$ 859
Interest on Long-term Debt (b)	875	$ 39	$ 71	73	692
Operating Leases (c)	19	6	9	3	1
Coal and Natural Gas Purchase Obligations (d)	1,722	419	732	543	28
Unconditional Power Purchase Obligations (e)	700	20	42	43	595
Construction Obligations (f)	115	61	46	7	1
Pension Benefit Plan Obligations (g)	21	21			
Other Obligations (h)	10	2	4	4	
Total Contractual Cash Obligations	$ 4,571	$ 568	$ 904	$ 923	$ 2,176

(a) Reflects principal maturities only based on stated maturity dates. See Note 7 to the Financial Statements for a discussion of variable-rate remarketable bonds issued on behalf of LG&E. LG&E does not have any significant capital lease obligations.
(b) Assumes interest payments through stated maturity. The payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated.
(c) See Note 11 to the Financial Statements for additional information.
(d) Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 15 to the Financial Statements for additional information.
(e) Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 15 to the Financial Statements for additional information.
(f) Represents construction commitments, including commitments for the Ohio Falls refurbishment construction including associated material transport systems for coal combustion residuals, which are also reflected in the Capital Expenditures table presented above.
(g) Based on the current funded status of LKE's qualified pension plan, which covers LG&E employees, no cash contributions are required. See Note 13 to the Financial Statements for a discussion of expected contributions.
(h) Represents other contractual obligations. Purchase orders made in the ordinary course of business are excluded from the amounts presented.

Dividends

From time to time, as determined by its Board of Directors, LG&E pays dividends to its sole shareholder, LKE.

As discussed in Note 7 to the Financial Statements, LG&E's ability to pay dividends is limited under a covenant in its $400 million revolving line of credit facility. This covenant restricts the debt to total capital ratio to not more than 70%.

Purchase or Redemption of Debt Securities

LG&E will continue to evaluate purchasing or redeeming outstanding debt securities and may decide to take action depending upon prevailing market conditions and available cash.

Rating Agency Decisions

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

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

In LG&E's 2011 Registration Statement, LG&E described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, LG&E is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to LG&E's ratings, but without stating what ratings have been assigned to LG&E's securities. The ratings assigned by the rating agencies to LG&E and its securities may be found, without charge, on each of the respective ratings agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of PPL's then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

- Moody's affirmed its ratings for LG&E;
- S&P revised the outlook and lowered the issuer, senior secured and short-term ratings of LG&E; and
- Fitch affirmed its ratings for LG&E.

In April 2011, S&P took the following actions following the completion of PPL's acquisition of WPD Midlands:

- revised the outlook for LG&E;
- raised its short-term ratings of LG&E; and
- affirmed its long-term ratings for LG&E.

In September 2011, Moody's affirmed its issuer rating for LG&E.

In November 2011, Moody's and S&P affirmed their ratings for LG&E.

In December 2011, Fitch affirmed its ratings for LG&E.

Ratings Triggers

LG&E has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, commodity transportation and storage and interest rate instruments, which contain provisions requiring LG&E to post additional collateral, or permitting the counterparty to terminate the contract, if LG&E's credit rating were to fall below investment grade. See Note 19 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at December 31, 2011. At December 31, 2011, if LG&E's credit ratings had been below investment grade, the maximum amount that LG&E would have been required to post as additional collateral to counterparties was $64 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation and marketing operations, gas supply and interest rate contracts.

Off-Balance Sheet Arrangements

LG&E has entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 15 to the Financial Statements for a discussion of these agreements.

Risk Management

Market Risk

LG&E is exposed to market risk from equity instruments, interest rate instruments and commodity instruments, as discussed below. However, regulatory cost recovery mechanisms significantly mitigate those risks. See Notes 1, 18 and 19 to the Financial Statements for information about LG&E's risk management objectives, valuation techniques and accounting designations.

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

Commodity Price Risk (Non-trading)

LG&E's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E is subject to commodity price risk for only a small portion of on-going business operations. LG&E conducts energy trading and risk management activities to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. LG&E managed its energy commodity risk using derivative instruments, including swaps and forward contracts. See Note 19 to the Financial Statements for additional disclosures.

The balance and change in net fair value of LG&E's commodity derivative contracts for the periods ended December 31, 2011, 2010, and 2009 are shown in the table below.

	Gains (Losses)			
	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Fair value of contracts outstanding at the beginning of the period	$ (1)			$ 1
Contracts realized or otherwise settled during the period	(3)		$ 3	10
Fair value of new contracts entered into during the period			(4)	1
Other changes in fair value (a)	4	$ (1)	1	(12)
Fair value of contracts outstanding at the end of the period	$	$ (1)	$	$

(a) Represents the change in value of outstanding transactions and the value of transactions entered into and settled during the period.

Interest Rate Risk

LG&E has issued debt to finance its operations, which exposes it to interest rate risk. LG&E utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under LG&E's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of LG&E's debt portfolio due to changes in the absolute level of interest rates.

At December 31, 2011 and 2010, LG&E's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

LG&E is also exposed to changes in the fair value of its debt portfolio. LG&E estimated that a 10% decrease in interest rates at December 31, 2011, would increase the fair value of its debt portfolio by $27 million. This estimate is unchanged from December 31, 2010.

LG&E had the following interest rate hedges outstanding at:

	December 31, 2011			December 31, 2010		
	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates
Economic hedges						
Interest rate swaps (b)	$ 179	$ (60)	$ (4)	$ 179	$ (34)	$ (7)

(a) Includes accrued interest.
(b) LG&E utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While LG&E is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at December 31, 2011 mature through 2033.

Credit Risk

LG&E is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. LG&E maintains credit policies and procedures to limit counterparty credit risk including evaluating credit ratings and financial information along with having certain counterparties post margin if the credit exposure exceeds certain thresholds. LG&E is exposed to potential losses as a result of nonpayment by customers. LG&E maintains an allowance for doubtful accounts based on a historical charge-off percentage for retail customers. Allowances for doubtful accounts from wholesale customers and miscellaneous receivables are based on specific identification by management. Retail and wholesale customer accounts are written-off after four months of no payment activity. Miscellaneous receivables are written-off as management determines them to be uncollectible.

Certain of LG&E's derivative instruments contain provisions that require it to provide immediate and on-going collateralization of derivative instruments in net liability positions based upon LG&E's credit ratings from each of the major credit rating agencies. See Notes 18 and 19 to the Financial Statements for information regarding exposure and the risk management activities.

Related Party Transactions

LG&E is not aware of any material ownership interest or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with LG&E. See Note 16 to the Financial Statements for additional information on related party transactions between LG&E and affiliates.

Environmental Matters

Protection of the environment is a major priority for LG&E and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to LG&E's air emissions, water discharges and the management of hazardous and solid waste, among other areas, and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc.; and may impact the costs for their products or their demand for LG&E's services. See "Item 1. Business - Environmental Matters" and Note 15 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Note 24 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). LG&E's senior management has reviewed these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them, with PPL's Audit Committee.

1) Revenue Recognition - Unbilled Revenue

Revenues related to the sale of energy are recorded when service is rendered or when energy is delivered to customers. Because customers of LG&E's retail operations are billed on cycles which vary based on the timing of the actual reading of their electric and gas meters, LG&E records estimates for unbilled revenues at the end of each reporting period. Such unbilled revenue amounts reflect estimates of the amount of energy delivered to customers since the date of the last reading of their meters. Such unbilled revenues reflect consideration of estimated usage by customer class, the effect of different rate schedules, changes in weather and where applicable, the impact of weather normalization or other regulatory provisions of rate structures. In addition to the unbilled revenue accrual resulting from cycle billing, LG&E makes additional accruals resulting from the timing of customer bills. The accrual of unbilled revenues in this manner properly matches revenues and related costs. At December 31, 2011 and 2010 LG&E had unbilled revenue balances of $65 million and $81 million.

2) Price Risk Management

See "Financial Condition - Risk Management" above.

3) Defined Benefits

LG&E sponsors and participates in qualified funded defined benefit pension plans and participates in a funded other postretirement benefit plan. These plans are applicable to the majority of the employees of LG&E. The plans LG&E participates in are sponsored by LKE. LKE allocates a portion of the liability and net periodic defined benefit pension and other postretirement costs of certain plans to LG&E based on its participation. LG&E records an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to regulatory assets or liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 13 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

Certain assumptions are made by LKE and LG&E regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. These amounts in regulatory assets and liabilities are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- Discount Rate - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.

- Expected Long-term Return on Plan Assets - Management projects the long-term rates of return on plan assets based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. These projected returns reduce the net benefit costs LG&E records currently.

- Rate of Compensation Increase - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.

- Health Care Cost Trend Rate - Management projects the expected increases in the cost of health care.

In selecting a discount rate for their defined benefit plans LKE and LG&E start with a cash flow analysis of the expected benefit payment stream for their plans. In 2010, these plan-specific cash flows were matched against a spot-rate yield curve to determine the assumed discount rate. To develop the spot-rate yield curve, the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, served as the base from which those with the lowest and highest yields were eliminated to develop an appropriate subset of bonds from which the ultimate yield curve would be built. At that time, management believed this plan-specific cash flow matching model represented the best available tool for estimating the discount rate. Beginning in 2011, LKE and LG&E utilized a new tool that enhanced this plan-specific cash flow matching methodology by primarily matching the plan-specific cash flows against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the same universe of Aa-rated corporate bonds from which those with the lowest and highest yields were eliminated, similar to the yield curve approach. Individual bonds are then selected based on the timing of each plan's cash flows and parameters are established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed. This process more accurately approximated the process of settlement of the obligations which better aligned with the objective of selecting the discount rate. At December 31, 2011, LKE decreased the discount rate for its pension plan from 5.52% to 5.12%. LG&E decreased the discount rate for its pension plan from 5.45% to 5.05%. LKE decreased the discount rate for its other postretirement benefit plan from 5.12% to 4.78%.

The expected long-term rates of return for LKE's and LG&E's defined benefit pension plans and LKE's defined other postretirement benefit plan have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. LKE and LG&E management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads, and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption. At December 31, 2011, LKE's and LG&E's expected return on plan assets was 7.25%.

In selecting a rate of compensation increase, LKE and LG&E consider past experience in light of movements in inflation rates. At December 31, 2011, LKE's and LG&E's rate of compensation increase changed from 5.25% to 4.00%.

In selecting health care cost trend rates, LKE considers past performance and forecasts of health care costs. At December 31, 2011, LKE's health care cost trend rates were 8.50% for 2012, gradually declining to 5.50% for 2019.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and regulatory assets and liabilities for LG&E. While the charts below reflect either an increase or decrease in each assumption, the inverse of the change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and regulatory assets and liabilities for LG&E by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption and does not include income tax effects.

At December 31, 2011, the defined benefit plans were recorded as follows:

Pension liabilities	$	95
Other postretirement benefit liabilities		87

The following chart reflects the sensitivities in the December 31, 2011 Balance Sheet associated with a change in certain assumptions based on LG&E's primary defined benefit plans.

	Increase (Decrease)						
Actuarial assumption	**Change in assumption**		**Impact on defined benefit liabilities**		**Impact on OCI**		**Impact on regulatory assets**
Discount Rate	(0.25)%	$	19	$		$	19
Rate of Compensation Increase	0.25%		2				2
Health Care Cost Trend Rate (a)	1%		1				1

(a) Only impacts other postretirement benefits.

In 2011, LG&E recognized net periodic defined benefit costs charged to operating expense of $21 million. This amount represents a $1 million increase from 2010. This increase in expense was primarily attributable to amortization of actuarial losses.

The following chart reflects the sensitivities in the 2011 Statement of Income (excluding income tax effects) associated with a change in certain assumptions based on LG&E's primary defined benefit plans.

Actuarial assumption	**Change in assumption**		**Impact on defined benefit costs**
Discount Rate	(0.25)%	$	2
Expected Return on Plan Assets	(0.25)%		1
Rate of Compensation Increase	0.25%		
Health Care Cost Trend Rate (a)	1%		

(a) Only impacts other postretirement benefits.

4) Asset Impairment

Impairment analyses are performed for long-lived assets that are subject to depreciation or amortization whenever events or changes in circumstances indicate that a long-lived asset's carrying value may not be recoverable. For these long-lived assets classified as held and used, such events or changes in circumstances are:

- a significant decrease in the market price of an asset;
- a significant adverse change in the extent or manner in which an asset is being used or in its physical condition;
- a significant adverse change in legal factors or in the business climate;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset;
- a current-period operating or cash flow loss combined with a history of losses or a forecast that demonstrates continuing losses; or
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For a long-lived asset classified as held and used, impairment is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying value to its estimated fair value. Management must make significant judgments to estimate future cash flows including the useful lives of long-lived assets, the fair value of the assets and management's intent to use the assets. Alternate courses of action are considered to recover the carrying value of a long-lived asset, and estimated cash flows from the "most likely" alternative are used to assess impairment whenever one alternative is clearly the most likely outcome. If no alternative is clearly the most likely, then a probability-weighted approach is used taking into consideration estimated cash flows from the alternatives. For assets tested for impairment as of the balance sheet date, the estimates of future cash flows used in that test consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of a future sale of the assets. That assessment is not revised based on events that occur after the balance sheet date. Changes in assumptions and estimates could result in significantly different results than those identified and recorded in the financial statements.

For a long-lived asset classified as held for sale, impairment exists when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If the asset (disposal group) is impaired, an impairment loss is recorded to adjust the carrying amount to its fair value less cost to sell. A gain is recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative impairment previously recognized.

For determining fair value, quoted market prices in active markets are the best evidence. However, when market prices are unavailable, LG&E considers all valuation techniques appropriate under the circumstances and for which market participant inputs can be obtained. Generally discounted cash flows are used to estimate fair value, which incorporates market participant inputs when available. Discounted cash flows are calculated by estimating future cash flow streams and applying appropriate discount rates to determine the present value of the cash flow streams.

In 2011, LG&E did not recognize an impairment of any long-lived assets.

Goodwill is tested for impairment at the reporting unit level. LG&E's reporting unit has been determined to be at the operating segment level. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying value of the reporting unit may be greater than the unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of. Goodwill is tested for impairment using a two-step approach. In step 1, LG&E identifies a potential impairment by comparing the estimated fair value of LG&E (the goodwill reporting unit) to its carrying value, including goodwill, on the measurement date. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.

The second step requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. That is, the estimated fair value is allocated to all of LG&E's assets and liabilities as if LG&E had been acquired in a business combination and the estimated fair value of LG&E was the price paid. The excess of the estimated fair value of LG&E over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of goodwill is then compared with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of the reporting unit's goodwill.

LG&E tested goodwill for impairment in the fourth quarter of 2011 and no impairment was recognized. Management used both discounted cash flows and market multiples to estimate the fair value of LKE, which involved the use of significant estimates and assumptions. Applying an appropriate weighting to both the discounted cash flow and market multiple valuations, a decrease in the forecasted cash flows of 10%, an increase in the discount rate by 25 basis points, or a 10% decrease in the multiples would not have resulted in an impairment of goodwill.

5) Loss Accruals

Losses are accrued for the estimated impacts of various conditions, situations or circumstances involving uncertain or contingent future outcomes. For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that a loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

The accounting aspects of estimated loss accruals include (1) the initial identification and recording of the loss, (2) the determination of triggering events for reducing a recorded loss accrual and (3) the ongoing assessment as to whether a recorded loss accrual is sufficient. All three of these aspects require significant judgment by management. Internal expertise and outside experts (such as lawyers and engineers) are used, as necessary to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

In 2011, no significant adjustments were made to LG&E's existing contingencies. See Note 15 to the Financial Statements for commitment and contingency disclosures.

Certain other events have been identified that could give rise to a loss, but that do not meet the conditions for accrual. Such events are disclosed, but not recorded, when it is reasonably possible that a loss has been incurred. Accounting guidance defines "reasonably possible" as cases in which "the future event or events occurring is more than remote, but less than likely to occur." See Note 15 to the Financial Statements for disclosure of other potential loss contingencies that have not met the criteria for accrual.

When an estimated loss is accrued, the triggering events for subsequently adjusting the loss accrual are identified, where applicable. The triggering events generally occur when the contingency has been resolved and the actual loss is paid or written off, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the adjustment of certain recorded loss accruals:

- Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted, a better estimate of the allowance is determined or underlying amounts are ultimately collected.

- Environmental and other litigation contingencies are reduced when the contingency is resolved, LG&E makes actual payments, a better estimate of the loss is determined or the loss is no longer considered probable.

Loss accruals are reviewed on a regular basis to assure that the recorded potential loss exposures are appropriate. This involves ongoing communication and analyses with internal and external legal counsel, engineers, operation management and other parties.

6) Asset Retirement Obligations

LG&E is required to recognize a liability for legal obligations associated with the retirement of long-lived assets. The initial obligation is measured at its estimated fair value. An equivalent amount is recorded as an increase in the value of the capitalized asset and allocated to expense over the useful life of the asset. Until the obligation is settled, the liability is increased, through the recognition of accretion expense in the Statements of Income, for changes in the obligation due to the passage of time. The accretion and depreciation are offset with a regulatory credit on the income statement, such that there is no earnings impact. The regulatory asset created by the regulatory credit is relieved when the ARO has been settled. An ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. See Note 21 to the Financial Statements for related disclosures.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that considers estimated retirement costs in current period dollars that are inflated to the anticipated retirement date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of various AROs and the related assets, are reviewed periodically to ensure that any material changes are incorporated into the estimate of the obligations. Any change to the capitalized asset is amortized over the remaining life of the associated long-lived asset.

At December 31, 2011, LG&E had AROs comprised of current and noncurrent amounts, totaling $57 million recorded on the Balance Sheet. Of the total amount, $34 million, or 59%, relates to LG&E's ash ponds, landfills and natural gas mains. The most significant assumptions surrounding AROs are the forecasted retirement costs, the discount rates and the inflation rates. A variance in the forecasted retirement costs, the discount rates or the inflation rates could have a significant impact on the ARO liabilities.

The following chart reflects the sensitivities related to LG&E's ARO liabilities for ash ponds, landfills and natural gas mains at December 31, 2011:

	Change in Assumption	Impact on ARO Liability
Retirement Cost	10%	$ 3
Discount Rate	(0.25)%	2
Inflation Rate	0.25%	2

7) Income Taxes

Significant management judgment is required in developing LG&E's provision for income taxes primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and the determination of deferred tax assets, liabilities and valuation allowances.

Significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. LG&E evaluates its tax positions following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization upon settlement that exceeds 50%. LG&E's management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, LG&E's uncertain tax positions are reassessed by considering information known at the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position maybe de-recognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future.

At December 31, 2011, LG&E had no existing reserve for unrecognized tax benefits.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized to account for an uncertain tax position. See Note 5 to the Financial Statements for related disclosures.

Regulatory Assets and Liabilities

LG&E is a cost-based rate-regulated utility. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC and the KPSC. See Note 6 to the Financial Statements for related disclosures.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to other regulated entities and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, then asset write-off would be required to be recognized in operating income. Additionally, the regulatory agencies can provide flexibility in the manner and timing of the depreciation of PP&E and amortization of regulatory assets.

At December 31, 2011 and 2010, LG&E had regulatory assets of $412 million and $380 million. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices. At December 31, 2011 and 2010, LG&E had regulatory liabilities of $488 million and $534 million.

Other Information

PPL's Audit Committee has approved the independent auditor to provide audit and other services permitted by Sarbanes-Oxley and SEC rules. The audit services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews. See "Item 14. Principal Accounting Fees and Services" for more information.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information provided in this Item 7 should be read in conjunction with KU's Financial Statements and the accompanying Notes. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of KU and its business strategy. "Financial and Operational Developments" includes a review of Net Income and discusses certain events that are important to understanding KU's results of operations and financial condition.

- "Results of Operations" provides a summary of KU's earnings and a description of key factors expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on KU's Statements of Income, comparing 2011, 2010 and 2009.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of KU's liquidity position and credit profile. This section also includes a discussion of rating agency decisions and capital expenditure projections.

- "Financial Condition - Risk Management" provides an explanation of KU's risk management programs relating to market and credit risk.

- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of KU and that require its management to make significant estimates, assumptions and other judgments of matters inherently uncertain.

Overview

Introduction

KU, headquartered in Lexington, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy, in Kentucky, Virginia and Tennessee. KU and its affiliate, LG&E, are wholly owned subsidiaries of LKE. LKE, a limited liability company, became a wholly owned subsidiary of PPL when PPL acquired all of LKE's interests from E.ON US Investments Corp. on November 1, 2010. Following the acquisition, both KU and LG&E continue operating as subsidiaries of LKE, which is now an intermediary holding company in PPL's group of companies. Refer to "Item 1. Business - Background" for a description of KU's business.

Business Strategy

KU's overall strategy is to provide reliable, safe and competitively priced energy to its customers.

A key objective for KU is to maintain a strong credit profile through managing financing costs and access to credit markets. KU continually focuses on maintaining an appropriate capital structure and liquidity position.

Successor and Predecessor Financial Presentation

KU's Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010, and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, which are discussed in Note 1 to the Financial Statements. The cost bases of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down basis of accounting, which was used to record the fair value adjustments of assets and liabilities at the acquisition date. Consequently, the financial position, results of operations and cash flows for the Successor periods are not comparable to the Predecessor periods; however, the core operations of KU have not changed as a result of the acquisition.

Financial and Operational Developments

Net Income

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Net Income	$ 178	$ 35	$ 140	$ 133

The operating results for 2011 and 2010 include the effect of KU's base rate increases, which became effective August 1, 2010, partially offset by net cost increases, which have not yet been reflected in the rates charged by KU. Retail sales volumes increased during 2010 compared with 2009 as a result of increased consumption primarily due to increased heating degree days during the first and third quarters of 2010 and increased cooling degree days during the second and third quarters of 2010.

See "Results of Operations" below for further discussion and analysis of the results of operations.

TC2

KU and LG&E constructed a 732 MW summer capacity coal-fired unit, TC2, which is jointly owned by KU (60.75%) and LG&E (14.25%), together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency (combined 25%). With limited exceptions, KU and LG&E took care, custody and control of TC2 in January 2011. KU and LG&E and the construction contractor further amended the construction agreement to provide that the contractor will complete certain actions to identify and complete any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. A number of remaining issues regarding these matters are still under discussion with the contractor. See Notes 8 and 15 to the Financial Statements for additional information.

Registered Debt Exchange Offer by KU

In April 2011, KU filed a Registration Statement with the SEC, related to an offer to exchange certain first mortgage bonds issued in November 2010, in transactions not subject to registration under the Securities Act of 1933, with similar but registered securities. The 2011 Registration Statement became effective in June 2011, and the exchange was completed in July 2011 with substantially all of the first mortgage bonds being exchanged. See Note 7 to the Financial Statements and KU's 2011 Registration Statement for additional information.

CSAPR

In July 2011, the EPA signed the CSAPR, which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010, and made revisions to the rule on February 7, 2012. This rule applies to the Kentucky coal plants. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions.

In December 2011, the U.S. Court of Appeals for the District of Columbia (Court) stayed implementation of the CSAPR and left CAIR in effect pending a final resolution on the merits of the validity of the rule. Oral argument on the various challenges to the CSAPR is scheduled for April 2012, and a final decision on the validity of the rule could be issued as early as May 2012.

With respect to KU's Kentucky coal-fired generating plants, the stay of the CSAPR will initially only impact the unit dispatch order. With the return of the CAIR and KU's significant number of sulfur dioxide allowances, those units will be dispatched with lower operating cost, but slightly higher sulfur dioxide and nitrogen oxide emissions. However, a key component of the Court's final decision, even if the CSAPR is upheld, will be whether the ruling delays the implementation of the CSAPR by one year for both Phases I and II, or instead still requires the significant sulfur dioxide and nitrogen oxide reductions associated with Phase II to begin in 2014. KU's CSAPR compliance strategy is based on over-compliance during Phase I to generate allowances sufficient to cover the expected shortage during the first two years of Phase II (2014 and 2015) when additional pollution control equipment will be installed. Should Phase I of the CSAPR be shortened to one year, it will be more difficult and costly to provide enough excess allowances in one year to meet the shortage projected for 2014 and 2015.

See Note 15 to the Financial Statements for additional information on the CSAPR.

Pending Bluegrass CTs Acquisition and NGCC Construction

In September 2011, KU and LG&E filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run plant site. In conjunction with this request and to meet new, stricter EPA regulations, KU anticipates retiring three older coal-fired electric generating units. These units are located at the Green River and Tyrone plants, which have a combined summer rating of 234 MW. KU and LG&E also requested approval to purchase the Bluegrass CTs, which are expected to provide up to 495 MW of peak generation supply.

KU anticipates that its share of the NGCC construction and the acquisition of the Bluegrass CTs could require up to $500 million in capital costs including related transmission projects. Formal requests for recovery of the costs associated with the NGCC construction and the acquisition of the Bluegrass CTs were not included in the CPCN filing with the KPSC but are expected to be included in future rate proceedings. The KPSC issued an Order on the procedural schedule in the CPCN filing that has discovery, scheduled through early February 2012. A KPSC order on the CPCN filing is anticipated in the second quarter of 2012. See Note 8 to the Financial Statements for additional information.

ECR Filing - Environmental Upgrades

In June 2011, in order to achieve compliance with new and pending mandated federal EPA regulations, KU filed an ECR plan with the KPSC requesting approval to install environmental upgrades for certain of its coal-fired plants along with the recovery of the expected $1.1 billion in associated capital costs, as well as operating expenses incurred. The ECR plan detailed upgrades that will be made to certain of KU's coal-fired generating plants to continue to be compliant with EPA regulations.

In November 2011, KU filed a unanimous settlement agreement, stipulation and recommendation with the KPSC. In December 2011, KU received KPSC approval in its proceedings relating to the ECR plan. The KPSC Order approved the terms of the November 2011 settlement agreement entered into between KU and the parties to the ECR proceedings. The KPSC Order authorized the installation of environmental upgrades at certain plants during 2012-2016 representing approximate capital costs of $900 million at KU. In connection with the approved projects, the KPSC Order allows recovery through the ECR rate mechanism of the capital costs and operating expenses of the projects and granted CPCN for their construction. The KPSC Order also confirmed an existing 10.63% authorized return on equity for projects remaining from earlier ECR plans and provided for an authorized return on equity of 10.10% for the approved projects in the 2011 ECR proceedings. The KPSC Order noted KU's consent to defer the requested approval for certain environmental upgrades at its E.W. Brown generating plant, which represented approximately $200 million in capital costs. KU retained the right to operate and dispatch the E.W. Brown generating plant in accordance with applicable environmental standards and the right to request approval of the deferred projects and related costs in future regulatory proceedings. See Note 6 to the Financial Statements for additional information.

Storm Recovery

In December 2009, a major snowstorm hit KU's Virginia service area causing approximately 30,000 customer outages. During the normal 2009 Virginia Annual Information Filing (AIF), KU requested that the VSCC establish a regulatory asset and defer for future recovery $6 million in incremental operation and maintenance expenses related to the storm restoration. In March 2011, the VSCC Staff issued its report on KU's 2009 AIF stating that it considered this storm damage to be extraordinary, non-recurring and material to KU. The Staff Report also recommended establishing a regulatory asset for these costs, with recovery over a five-year period upon approval in the next base rate case. In March 2011, a regulatory asset of $6 million was established for actual costs incurred. In June 2011, the VSCC issued an Order approving the recommendations contained in the Staff Report. KU received approval in its 2011 base rate case to recover this regulatory asset over a five-year period ending October 2016.

In September 2009, the KPSC approved the deferral of $57 million of costs associated with a severe ice storm that occurred in January 2009 and a wind storm that occurred in February 2009. Additionally, in December 2008, the KPSC approved the deferral of $2 million of costs associated with high winds from the remnants of Hurricane Ike in September 2008. KU received approval in its 2010 base rate case to recover these regulatory assets over a ten-year period beginning August 2010.

Virginia Rate Case

In April 2011, KU filed an application with the VSCC requesting an annual increase in electric base rates for its Virginia jurisdictional customers of $9 million, or 14%. In September 2011, a settlement stipulation was reached between KU and the VSCC Staff and filed with the VSCC for consideration. In October 2011, the VSCC approved the stipulation with two modifications that were accepted by KU. The VSCC issued an Order closing the proceeding in October 2011. The approved revenue increase was $7 million annually, based on a return on equity of 10.3%, with new base rates effective November 1, 2011.

Results of Operations

As previously noted, KU's results for the time periods after October 31, 2010 are on a basis of accounting different from its results for time periods prior to November 1, 2010. When discussing KU's results of operations material differences resulting from the different basis of accounting will be isolated for purposes of comparability. See "Overview - Successor and Predecessor Financial Presentation" for further information.

The utility business is affected by seasonal weather. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. Revenue and earnings are generally higher during the first and third quarters and lower during the second quarter due to weather.

The following table summarizes the significant components of net income for 2011, 2010, and 2009 and the changes therein:

Earnings

	Successor	%	Combined	Successor	Predecessor	%	Predecessor
	Year Ended December 31, 2011	Change 2011 vs. 2010	Year Ended December 31, 2010	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Change 2010 vs. 2009	Year Ended December 31, 2009
Operating Revenues	$ 1,548	2	$ 1,511	$ 263	$ 1,248	12	$ 1,355
Fuel	516	4	495	78	417	14	434
Energy purchases	112	(36)	175	28	147	(12)	199
Other operation and maintenance	362	8	336	65	271	10	306
Depreciation	186	28	145	26	119	9	133
Taxes, other than income	19	90	10	1	9	(29)	14
Total Operating Expenses	1,195	3	1,161	198	963	7	1,086
Other Income (Expense) - net	(1)	(200)	1		1	(83)	6
Interest Expense	70	(10)	78	10	68	4	75
Income Taxes	104	6	98	20	78	46	67
Net Income	$ 178	2	$ 175	$ 35	$ 140	32	$ 133

The changes in the components of Net Income between these periods were due to the following factors.

	2011 vs. 2010	2010 vs. 2009
Margin	$ 52	$ 111
Other operation and maintenance	(12)	(27)
Depreciation	(28)	(7)
Taxes, other than income	(9)	4
Other Income (Expense) - net	(2)	(5)
Interest Expense	8	(3)
Income Taxes	(6)	(31)
	$ 3	$ 42

- See "Statement of Income Analysis - Margin - Changes in Non-GAAP Financial Measures" for an explanation of margin.

- Other operation and maintenance increased in 2011 compared with 2010, primarily due to $19 million of higher steam costs, the result of increase scope of scheduled outages including those at Ghent and Green River plants, along with higher variable costs from increased generation.

  Other operation and maintenance increased in 2010 compared with 2009, primarily due to higher administrative and general costs of $13 million, higher steam costs of $6 million and higher transmission operation costs of $5 million. Administrative and general costs increased due to higher bad debt costs, higher labor costs and higher property and public liability insurance costs.

- Depreciation expense was $25 million higher in 2011 compared with 2010, due to TC2 commencing dispatch in January 2011.

- Taxes, other than income increased in 2011 compared with 2010, primarily due to a $5 million clean coal incentive tax credit that KU was able to apply to property tax in 2010.

- Income taxes increased in 2010 compared with 2009, primarily due to the $28 million impact of higher pre-tax income, primarily due to margin.

2012 Outlook

KU projects lower earnings in 2012 compared with 2011, as revenue increases are not expected to offset operating expense increases, including depreciation, due to more plant in service. Actual results will be dependent on the effects of the economy and the impact of weather on retail sales among other variables. As a result of the stay out provision established in the settlement of the PPL-LKE acquisition, KU is generally unable to implement an increase in base rates in Kentucky before January 1, 2013.

Earnings in 2012 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 7, Notes 6 and 15 to the Financial Statements and "Business," and "Risk Factors" in this Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margin

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margin." Margin is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margin is a single financial performance measure of KU's operations. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expenses and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. As a result, this measure represents the net revenues from KU's operations. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared with budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margin" as defined by KU for 2011, 2010 and 2009.

	2011 Successor		
	Margin	Other (a)	Operating Income (b)
Operating Revenues	$ 1,548		$ 1,548
Operating Expenses			
Fuel	516		516
Energy purchases	112		112
Other operation and maintenance	49	$ 313	362
Depreciation	48	138	186
Taxes, other than income		19	19
Total Operating Expenses	725	470	1,195
Total	$ 823	$ (470)	$ 353

	Successor			Predecessor		
	Two Months Ended December 31, 2010			Ten Months Ended October 31, 2010		
	Margin	Other (a)	Operating Income (b)	Margin	Other (a)	Operating Income (b)
Operating Revenues	$ 263		$ 263	$ 1,248		$ 1,248
Operating Expenses						
Fuel	78		78	417		417
Energy purchases	28		28	147		147
Other operation and maintenance	6	$ 59	65	29	$ 242	271
Depreciation	6	20	26	29	90	119
Taxes, other than income		1	1		9	9
Total Operating Expenses	118	80	198	622	341	963
Total	$ 145	$ (80)	$ 65	$ 626	$ (341)	$ 285

	2009 Predecessor		
	Margin	Other (a)	Operating Income (b)
Operating Revenues	$ 1,355		$ 1,355
Operating Expenses			
Fuel	434		434
Energy purchases	199		199
Other operation and maintenance	32	$ 274	306
Depreciation	30	103	133
Taxes, other than income		14	14
Total Operating Expenses	695	391	1,086
Total	$ 660	$ (391)	$ 269

(a) Represents amounts excluded from Margin.
(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins were higher by $52 million for 2011 compared with 2010. New KPSC rates went into effect on August 1, 2010, contributing an additional $64 million in operating revenues over the prior year. Partially offsetting the rate increase were lower retail volumes resulting from weather and economic conditions.

Other Operation and Maintenance

Changes in other operation and maintenance expense were due to the following:

	2011 vs. 2010	2010 vs. 2009
Fuel for generation (a)	$ 6	$ 1
Steam operation (b)	10	4
Distribution maintenance		(3)
Steam maintenance (c)	9	2
Transmission operation (d)	(1)	5
Administrative and general (e)	7	13
Other generation maintenance	(2)	3
Other	(3)	5
Total	$ 26	$ 30

(a) Fuel handling costs are included in fuel for electric generation on the Statements of Income for the Successor's periods and are in other operation and maintenance expense on the Statements of Income for the Predecessor's periods.
(b) Steam operation costs increased in 2011 compared with 2010, due to increased generation, the result of TC2 commencing dispatch in 2011.
(c) Steam maintenance costs increased in 2011 compared with 2010, due to an increase in the scope of scheduled outages including those at Ghent and Green River.
(d) Transmission operation costs increased in 2010 compared with 2009, primarily due to a settlement agreement with a third party resulting in the establishment of a regulatory asset in 2009, net of twelve months of amortization expense recorded in 2010.
(e) Administrative and general costs increased in 2011 compared with 2010, due to higher outside services costs of $2 million, higher labor costs of $1 million and higher pension costs of $1 million, partially offset by $2 million of lower bad debt costs.

Administrative and general costs increased in 2010 compared with 2009, due higher bad debt costs of to $4 million, higher labor costs of $1 million, and higher property and public liability insurance costs of $2 million. Bad debt costs increased in 2010 compared with 2009, due to higher billed revenues and a higher net charge-off percentage, partially offset by higher late payment charges.

Depreciation

Changes in depreciation were due to the following:

	2011 vs. 2010	2010 vs. 2009
TC2 (dispatch began in January 2011)	$ 25	
E.W. Brown sulfur dioxide scrubber equipment (placed in-service in June 2010)	8	$ 7
Ghent Unit 2 sulfur dioxide scrubber equipment (placed in-service in May 2009)		3
Other	8	2
Total	$ 41	$ 12

Taxes, Other Than Income

Taxes, other than income increased by $9 million in 2011 compared with 2010 primarily due to a $5 million state coal tax credit that was applied to 2010 property taxes. The remaining increase was due to higher assessments, primarily from significant property additions.

Interest Expense

The changes in interest expense were due to:

	2011 vs. 2010	2010 vs. 2009
Interest rates (a)	$ (18)	$ (3)
Long-term debt balances (b)	8	1
Other	2	5
Total	$ (8)	$ 3

(a) Interest rates on the first mortgage bonds issued in November 2010 were lower than the rates on the loans from the Fidelia Corporations in place through October 2010.
(b) KU's long-term debt principal balance was $169 million higher as of December 31, 2010 compared with December 31, 2009 and did not change from December 31, 2010 to December 31, 2011. The higher interest expense in 2011 was the result of higher long-term debt balances for the last two months of 2010.

Income Taxes

Changes in income taxes were due to the following:

	2011 vs. 2010	2010 vs. 2009
Higher pre-tax income	$ 4	$ 28
Other	2	3
Total	$ 6	$ 31

Financial Condition

Liquidity and Capital Resources

KU expects to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents and its credit facilities. KU currently has no plans to access capital markets in 2012.

KU's cash flows from operations and access to cost-effective bank and capital markets are subject to risks and uncertainties including, but not limited to:

- changes in market prices for electricity;
- changes in commodity prices that may increase the cost of producing power or decrease the amount KU receives from selling power;
- operational and credit risks associated with selling and marketing products in the wholesale power markets;
- unusual or extreme weather that may damage KU's transmission and distribution facilities or affect energy sales to customers;
- reliance on transmission and distribution facilities that KU does not own or control to deliver its electricity and natural gas;
- unavailability of generating units (due to unscheduled or longer-than-anticipated generation outages, weather and natural disasters) and the resulting loss of revenues and additional costs of replacement electricity;
- the ability to recover and the timeliness and adequacy of recovery of costs associated with regulated utility businesses;
- costs of compliance with existing and new environmental laws;
- any adverse outcome of legal proceedings and investigations with respect to KU's current and past business activities;
- deterioration in the financial markets that could make obtaining new sources of bank and capital markets funding more difficult and more costly; and
- a downgrade in KU's credit ratings that could adversely affect its ability to access capital and increase the cost of credit facilities and any new debt.

See "Item 1A. Risk Factors" for further discussion of risks and uncertainties affecting KU's cash flows.

At December 31, KU had the following:

	Successor 2011	Successor 2010	Predecessor 2009
Cash and cash equivalents	$ 31	$ 3	$ 2

The changes in KU's cash and cash equivalents position resulted from:

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Net cash provided by operating activities	$ 438	$ 29	$ 344	$ 253
Net cash provided by (used in) investing activities	(273)	(88)	(340)	(507)
Net cash provided by (used in) financing activities	(137)	58	(2)	254
Net Increase (Decrease) in Cash and Cash Equivalents	$ 28	$ (1)	$ 2	$

Auction Rate Securities

At December 31, 2011, KU's tax-exempt revenue bonds that are in the form of auction rate securities and total $96 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the period ended December 31, 2011, the weighted-average rate on KU's auction rate bonds in total was 0.27%.

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

Operating Activities

Net cash provided by operating activities increased by 17%, or $65 million, in 2011 compared with 2010, primarily as a result of:

- an increase in net income adjusted for non-cash effects of $115 million (deferred income taxes and investment tax credits of $81 million and depreciation of $41 million, partially offset by defined benefit plans - expense of $2 million and other noncash items of $8 million);
- a net decrease in working capital related to unbilled revenues of $21 million due to colder weather in December 2010 as compared with December 2009, and milder weather in December 2011 as compared with December 2010; partially offset by
- an increase in discretionary defined benefit plan contributions of $30 million made in order to achieve KU's long-term funding requirements;
- the timing of ECR collections of $28 million; and
- an increase in cash outflows related to accrued taxes of $19 million due to an accrual in excess of payments made in 2010 for the 2010 tax year and the payment of the 2010 tax liability in 2011, along with payments made in 2011 over the accrual for the 2011 tax year.

Net cash provided by operating activities increased by 47%, or $120 million, in 2010 compared with 2009, primarily as a result of:

- lower storm expenses of $59 million;
- the timing of ECR collections of $48 million;
- a decrease in cash outflows related to inventory of $27 million, primarily due to a nominal change in inventory levels in 2010 and lower consumption in 2009 due to lower generation; and
- an increase in net income adjusted for non-cash effects of $8 million (depreciation of $12 million and other noncash items of $11 million, partially offset by deferred income taxes and investment tax credits of $47 million and defined benefit plans - expense of $10 million), partially offset by
- higher interest payments of $14 million due to an accelerated settlement with E.ON AG.

Investing Activities

The primary use of cash in investing activities in 2011, 2010 and 2009 was capital expenditures. See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2012 through 2016.

Net cash used in investing activities decreased by 36%, or $155 million, in 2011 compared with 2010, as a result of a decrease in capital expenditures of $155 million, primarily due to the completion of KU's scrubber program in 2010 and TC2 being dispatched in 2011.

Net cash used in investing activities decreased by 16%, or $79 million, in 2010 compared with 2009, as a result of a decrease in capital expenditures of $88 million, primarily due to lower expenditures related to the construction of TC2 and major storm events that occurred in 2009, partially offset by a decrease in restricted cash of $9 million.

Financing Activities

Net cash used in financing activities was $137 million in 2011 compared with net cash provided by financing activities of $56 million in 2010, primarily as a result of less long-term debt issuances and higher dividends to LKE.

In 2011, cash used in financing activities consisted of:

- the payment of common stock dividends to LKE of $124 million;
- a net decrease in notes payable with affiliates of $10 million; and
- the payment of debt issuance and credit facility costs of $3 million.

Net cash provided by financing activities was $56 million in 2010 compared with $254 million in 2009. In spite of significant new debt issuances associated with the repayments to E.ON AG affiliates in connection with PPL's acquisition of LKE, cash provided by financing was less in 2010 due to lower increases in debt in 2010 and the payment of dividends in 2010; whereas, KU received equity contributions in 2009.

In the two months of 2010 following the acquisition, cash provided by financing activities of the Successor consisted of:

- the issuance of first mortgage bonds of $1,489 million after discounts and
- the issuance of debt of $1,331 million to a PPL affiliate to repay debt due to an E.ON AG affiliate upon the closing of PPL's acquisition of LKE, partially offset by
- the repayment of debt to an E.ON AG affiliate of $1,331 million upon the closing of PPL's acquisition of LKE;
- the repayment of debt to a PPL affiliate of $1,331 million upon the issuance of first mortgage bonds;
- a net decrease in notes payable with affiliates of $83 million; and
- the payment of debt issuance and credit facility costs of $17 million.

In the ten months of 2010 preceding PPL's acquisition of LKE, cash used in financing activities by the Predecessor consisted of:

- the payment of common stock dividends to LKE of $50 million, partially offset by
- a net increase in notes payable with affiliates of $48 million.

In 2009, cash provided by financing activities of the Predecessor consisted of:

- the issuance of debt of $150 million to an E.ON AG affiliate;
- the receipt of capital contributions of $75 million from LKE; and
- a net increase in notes payable with affiliates of $29 million.

See "Forecasted Sources of Cash" for a discussion of KU's plans to issue debt securities, as well as a discussion of credit facility capacity available to KU. Also see "Forecasted Uses of Cash" for a discussion of plans to pay dividends on common securities in the future, as well as maturities of long-term debt.

KU's long-term debt securities activity through December 31, 2011 was:

	Debt	
	Issuances	Retirement
Non-cash Exchanges (a)(b)		
KU First Mortgage Bonds	$ 1,500	$ (1,500)
Total Exchanged	$ 1,500	$ (1,500)

(a) Issuances are net of pricing discounts, where applicable and exclude the impact of debt issuance costs.
(b) In April 2011, KU filed a 2011 Registration Statement with the SEC related to offers to exchange securities issued in November 2010 in transactions not registered under the Securities Act of 1933 with similar but registered securities. The registration became effective in June 2011, and the exchanges were completed in July 2011 with all securities being exchanged.

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

Forecasted Sources of Cash

KU expects to continue to have sufficient sources of cash available in the near term, including various credit facilities and operating cash flow. KU currently has no plans to access capital markets in 2012. In February 2012, KU established a commercial paper program for up to $250 million to provide an additional financing source to fund its short-term liquidity needs. Commercial paper issuances will be supported by KU's Syndicated Credit Facility.

Credit Facilities

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

	Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
Syndicated Credit Facility (a) (c)	$ 400			$ 400
Letter of Credit Facility (b)	198		$ 198	

(a) In June 2011, KU amended its Syndicated Credit Facility such that the fees and the spread to benchmark interest rates for borrowings depend upon KU's senior secured long-term debt rating rather than the senior unsecured debt rating.
(b) In April 2011, KU entered into a new $198 million letter of credit facility that has been used to issue letters of credit to support outstanding tax-exempt bonds. KU pays customary commitment and letter of credit fees under the new facility. The facility matures in April 2014. In August 2011, KU amended its letter of credit facility such that the fees depend upon KU's senior secured long-term debt rating rather than the senior unsecured debt rating.
(c) In October 2011, KU amended its Syndicated Credit Facility. The amendment included extending the expiration date from December 2014 to October 2016. Under this facility KU continues to have the ability to make cash borrowings and to request the lenders to issue letters of credit.

The commitments under KU's credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 19% of the total committed capacity available to KU.

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to $500 million at an interest rate based on a market index of commercial paper issues. At December 31, 2011, there was no balance outstanding. At December 31, 2010, $10 million was outstanding. The interest rate for the period ended December 31, 2010 was 0.25%.

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

Operating Leases

KU also has available funding sources that are provided through operating leases. KU leases office space and certain equipment. These leasing structures provide KU additional operating and financing flexibility. The operating leases contain covenants that are typical for these agreements, such as maintaining insurance, maintaining corporate existence and timely payment of rent and other fees.

See Note 11 to the Financial Statements for further discussion of the operating leases.

Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as purchased power, payroll, fuel and taxes, KU currently expects to incur future cash outflows for capital expenditures, various contractual obligations, payment of dividends on its common securities and possibly the purchase or redemption of a portion of debt securities.

Capital Expenditures

The table below shows KU's current capital expenditure projections for the years 2012 through 2016.

	Projected				
	2012	2013	2014	2015	2016
Construction expenditures (a)					
Generating facilities (b)	$ 129	$ 177	$ 217	$ 173	$ 65
Distribution facilities	78	95	86	103	100
Transmission facilities (c)	57	49	53	43	40
Environmental	379	453	411	233	51
Other	13	21	21	24	22
Total Construction Expenditures	$ 656	$ 795	$ 788	$ 576	$ 278

(a) Construction expenditures include AFUDC, which is not expected to be significant for the years 2012 through 2016.
(b) Includes approximately $500 million of currently estimable costs related to replacement generation units due to EPA regulations not recoverable through the ECR mechanism. KU expects to recover these costs over a period equivalent to the related depreciable lives of the assets through future rate proceedings.
(c) Includes approximately $30 million of currently estimable transmission costs related to replacement generation units. KU expects to recover these costs over a period equivalent to the related depreciable lives of the assets through future rate proceedings.

KU's capital expenditure projections for the years 2012 through 2016 total approximately $3.1 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes current estimates for KU's environmental projects related to new and anticipated EPA compliance standards. Actual costs may be significantly lower or higher depending on the final requirements and market conditions. Certain environmental compliance costs incurred by KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism.

KU plans to fund its capital expenditures in 2012 with cash on hand, cash from operations and short-term debt.

Contractual Obligations

KU has assumed various financial obligations and commitments in the ordinary course of conducting its business. At December 31, 2011, the estimated contractual cash obligations of KU were:

	Total	2012	2013 - 2014	2015 - 2016	After 2016
Long-term Debt (a)	$ 1,851			$ 250	$ 1,601
Interest on Long-term Debt (b)	1,546	$ 65	$ 131	135	1,215
Operating Leases (c)	34	9	14	7	4
Coal and Natural Gas Purchase Obligations (d)	1,107	404	549	152	2
Unconditional Power Purchase Obligations (e)	311	9	18	20	264
Construction Obligations (f)	294	217	70	6	1
Pension Benefit Plan Obligations (g)	15	15			
Other Obligations (h)	13	3	5	5	
Total Contractual Cash Obligations	$ 5,171	$ 722	$ 787	$ 575	$ 3,087

(a) Reflects principal maturities only based on stated maturity dates. See Note 7 to the Financial Statements for a discussion of variable-rate remarketable bonds issued on behalf of KU. KU does not have any significant capital lease obligations.
(b) Assumes interest payments through stated maturity. The payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated.
(c) See Note 11 to the Financial Statements for additional information.
(d) Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 15 to the Financial Statements for additional information.
(e) Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 15 to the Financial Statements for additional information.
(f) Represents construction commitments, including commitments for the Ghent landfill and Brown SCR construction including associated material transport systems for coal combustion residuals, which are also reflected in the Capital Expenditures table presented above.
(g) Based on the current funded status of LKE's qualified pension plan, which covers KU employees, no cash contributions are required. See Note 13 to the Financial Statements for a discussion of expected contributions.
(h) Represents other contractual obligations. Purchase orders made in the ordinary course of business are excluded from the amounts presented.

Dividends

From time to time, as determined by its Board of Directors, KU pays dividends to its sole shareholder, LKE.

As discussed in Note 7 to the Financial Statements, KU's ability to pay dividends is limited under a covenant in its $400 million revolving line of credit facility. This covenant restricts the debt to total capital ratio to not more than 70%.

Purchase or Redemption of Debt Securities

KU will continue to evaluate purchasing or redeeming outstanding debt securities and may decide to take action depending upon prevailing market conditions and available cash.

Rating Agency Decisions

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

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

In KU's 2011 Registration Statement, KU described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, KU is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to KU's ratings, but without stating what ratings have been assigned to KU's securities. The ratings assigned by the rating agencies to KU and its securities may be found, without charge, on each of the respective ratings agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of PPL's then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

- Moody's affirmed its ratings for KU;
- S&P revised the outlook and lowered the issuer, senior secured and short-term ratings of KU; and
- Fitch affirmed its ratings for KU.

In April 2011, S&P took the following actions following the completion of PPL's acquisition of WPD Midlands:

- revised the outlook for KU;
- raised its short-term ratings of KU; and
- affirmed its long-term ratings for KU.

In May 2011, S&P downgraded its long-term rating of four series of pollution control bonds issued on behalf of KU by one notch in connection with the substitution of the letters of credit enhancing these four bonds.

In September 2011, Moody's affirmed its issuer rating for KU.

In November 2011, Moody's and S&P affirmed their ratings for KU.

In December 2011, Fitch affirmed its ratings for KU.

Ratings Triggers

KU has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, and commodity transportation and storage, which contain provisions requiring KU to post additional collateral, or permitting the counterparty to terminate the contract, if KU's credit rating were to fall below investment grade. See Note 19 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at December 31, 2011. At December 31, 2011, if KU's credit ratings had been below investment grade, the maximum amount that KU would have been required to post as additional collateral to counterparties was $20 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation and marketing operations.

Off-Balance Sheet Arrangements

KU has entered into certain agreements that may contingently require payment to a guaranteed or indemnified party. See Note 15 to the Financial Statements for a discussion of these agreements.

Risk Management

Market Risk

KU is exposed to market risk from equity instruments, interest rate instruments and commodity instruments, as discussed below. However, regulatory cost recovery mechanisms significantly mitigate those risks. See Notes 1, 18 and 19 to the Financial Statements for information about KU's risk management objectives, valuation techniques and accounting designations.

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

Commodity Price Risk (Non-trading)

KU's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, KU is subject to commodity price risk for only a small portion of on-going business operations. KU conducts energy trading and risk management activities to maximize the value of the physical assets at times when the assets are not required to serve KU's or LG&E's customers. KU managed its energy commodity risk using derivative instruments, including swaps and forward contracts. See Note 19 to the Financial Statements for additional disclosures.

The balance and change in net fair value of KU's commodity derivative contracts for the periods ended December 31, 2011, 2010, and 2009 were not significant.

Interest Rate Risk

KU has issued debt to finance its operations, which exposes it to interest rate risk. At December 31, 2011 and 2010, KU's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

KU is also exposed to changes in the fair value of its debt portfolio. KU estimated that a 10% decrease in interest rates at December 31, 2011, would increase the fair value of its debt portfolio by $72 million compared with $73 million at December 31, 2010.

KU had no interest rate hedges outstanding at December 31, 2011 and December 31, 2010.

Credit Risk

KU is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. KU maintains credit policies and procedures to limit counterparty credit risk including evaluating credit ratings and financial information along with having certain counterparties post margin if the credit exposure exceeds certain thresholds. KU is exposed to potential losses as a result of nonpayment by customers. KU maintains an allowance for doubtful accounts based on a historical charge-off percentage for retail customers. Allowances for doubtful accounts from wholesale and municipal customers and miscellaneous receivables are based on specific identification by management. Retail, wholesale and municipal customer accounts are written-off after four months of no payment activity. Miscellaneous receivables are written-off as management determines them to be uncollectible.

Certain of KU's derivative instruments contain provisions that require it to provide immediate and on-going collateralization of derivative instruments in net liability positions based upon KU's credit ratings from each of the major credit rating agencies. See Notes 18 and 19 to the Financial Statements for information regarding exposure and the risk management activities.

Related Party Transactions

KU is not aware of any material ownership interest or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with KU. See Note 16 to the Financial Statements for additional information on related party transactions between KU and affiliates.

Environmental Matters

Protection of the environment is a major priority for KU and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to KU's air emissions, water discharges and the management of hazardous and solid waste, among other areas, and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc.; and may impact the costs for their products or their demand for KU's services. See "Item 1. Business - Environmental Matters" and Note 15 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Note 24 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the information presented in the Financial Statements (these accounting policies are also discussed in Note 1 to the Financial Statements). KU's senior management has reviewed these critical accounting policies, the following disclosures regarding their application and the estimates and assumptions regarding them, with PPL's Audit Committee.

1) Revenue Recognition - Unbilled Revenue

Revenues related to the sale of energy are recorded when service is rendered or when energy is delivered to customers. Because customers of KU's retail operations are billed on cycles which vary based on the timing of the actual reading of their electric meters, KU records estimates for unbilled revenues at the end of each reporting period. Such unbilled revenue amounts reflect estimates of the amount of energy delivered to customers since the date of the last reading of their meters. Such unbilled revenues reflect consideration of estimated usage by customer class, the effect of different rate schedules, changes in weather, and where applicable, the impact of weather normalization or other regulatory provisions of rate structures. In addition to the unbilled revenue accrual resulting from cycle billing, KU makes additional accruals resulting from the timing of customer bills. The accrual of unbilled revenues in this manner properly matches revenues and related costs. At December 31, 2011 and 2010 KU had unbilled revenue balances of $81 million and $89 million.

2) Price Risk Management

See "Financial Condition - Risk Management" above.

3) Defined Benefits

KU participates in a qualified funded defined benefit pension and a funded other postretirement benefits plan. These plans are applicable to the majority of the employees of KU and are sponsored by LKE. LKE allocates a portion of the liability and net periodic defined benefit pension and other postretirement costs of the plans to KU based on its participation. KU records an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to regulatory assets or liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets. See Note 13 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

Certain assumptions are made by LKE regarding the valuation of benefit obligations and the performance of plan assets. When accounting for defined benefits, delayed recognition in earnings of differences between actual results and expected or estimated results is a guiding principle. Annual net periodic defined benefit costs are recorded in current earnings based on estimated results. Any differences between actual and estimated results are recorded in regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. These amounts in regulatory assets and liabilities are amortized to income over future periods. The delayed recognition allows for a smoothed recognition of costs over the working lives of the employees who benefit under the plans. The primary assumptions are:

- Discount Rate - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.

- Expected Long-term Return on Plan Assets - Management projects the long-term rates of return on plan assets based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. These projected returns reduce the net benefit costs KU records currently.

- Rate of Compensation Increase - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.

- Health Care Cost Trend Rate - Management projects the expected increases in the cost of health care.

In selecting a discount rate for its defined benefit plans, LKE starts with a cash flow analysis of the expected benefit payment stream for its plans. In 2010, these plan-specific cash flows were matched against a spot-rate yield curve to determine the assumed discount rate. To develop the spot-rate yield curve, the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, served as the base from which those with the lowest and highest yields were eliminated to develop an appropriate subset of bonds from which the ultimate yield curve would be built. At that time, management believed this plan-specific cash flow matching model represented the best available tool for estimating the discount rate. Beginning in 2011, LKE utilized a new tool that enhanced this plan-specific cash flow matching methodology by primarily matching the plan-specific cash flows against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the same universe of Aa-rated corporate bonds from which those with the lowest and highest yields were eliminated, similar to the yield curve approach. Individual bonds are then selected based on the timing of each plan's cash flows and parameters are established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed. This process more accurately approximated the process of settlement of the obligations which better aligned with the objective of selecting the discount rate. At December 31, 2011 LKE decreased the discount rate for its pension plan from 5.52% to 5.12% and decreased the discount rate for its other postretirement benefit plan from 5.12% to 4.78%.

The expected long-term rates of return for LKE's defined benefit pension and other postretirement benefit plans have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. LKE management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption. At December 31, 2011, LKE's expected return on plan assets was 7.25%.

In selecting a rate of compensation increase, LKE considers past experience in light of movements in inflation rates. At December 31, 2011, LKE's rate of compensation increase changed from 5.25% to 4.00%.

In selecting health care cost trend rates LKE considers past performance and forecasts of health care costs. At December 31, 2011, LKE's health care cost trend rates were 8.50% for 2012, gradually declining to 5.50% for 2019.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and regulatory assets and liabilities allocated to KU. While the charts below reflect either an increase or decrease in each assumption, the inverse of the change would impact the accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and regulatory assets and liabilities for KU by a similar amount in the opposite direction. The sensitivities below reflect an evaluation of the change based solely on a change in that assumption and does not include income tax effects.

At December 31, 2011, the defined benefit plans were recorded as follows:

Pension liabilities	$	83
Other postretirement benefit liabilities		62

The following chart reflects the sensitivities in the December 31, 2011 Balance Sheet associated with a change in certain assumptions based on KU's primary defined benefit plans.

	Increase (Decrease)			
Actuarial assumption	**Change in assumption**	**Impact on defined benefit liabilities**	**Impact on OCI**	**Impact on regulatory assets**
Discount Rate	(0.25)%	$ 15		$ 15
Rate of Compensation Increase	0.25%	3		3
Health Care Cost Trend Rate (a)	1%	4		4

(a) Only impacts other postretirement benefits.

In 2011 and 2010, KU recognized net periodic defined benefit costs charged to operating expense of $14 million.

The following chart reflects the sensitivities in the 2011 Statement of Income (excluding income tax effects) associated with a change in certain assumptions based on KU's primary defined benefit plans.

Actuarial assumption	**Change in assumption**	**Impact on defined benefit costs**
Discount Rate	(0.25)%	$ 2
Expected Return on Plan Assets	(0.25)%	1
Rate of Compensation Increase	0.25%	1
Health Care Cost Trend Rate (a)	1%	

(a) Only impacts other postretirement benefits.

4) Asset Impairment

Impairment analyses are performed for long-lived assets that are subject to depreciation or amortization whenever events or changes in circumstances indicate that a long-lived asset's carrying value may not be recoverable. For these long-lived assets classified as held and used, such events or changes in circumstances are:

- a significant decrease in the market price of an asset;
- a significant adverse change in the extent or manner in which an asset is being used or in its physical condition;
- a significant adverse change in legal factors or in the business climate;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset;
- a current-period operating or cash flow loss combined with a history of losses or a forecast that demonstrates continuing losses; or
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For a long-lived asset classified as held and used, impairment is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying value to its estimated fair value. Management must make significant judgments to estimate future cash flows including the useful lives of long-lived assets, the fair value of the assets and management's intent to use the assets. Alternate courses of action are considered to recover the carrying value of a long-lived asset, and estimated cash flows from the "most likely" alternative are used to assess impairment whenever one alternative is clearly the most likely outcome. If no alternative is clearly the most likely, then a probability-weighted approach is used taking into consideration estimated cash flows from the alternatives. For assets tested for impairment as of the balance sheet date, the estimates of future cash flows used in that test consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of a future sale of the assets. That assessment is not revised based on events that occur after the balance sheet date. Changes in assumptions and estimates could result in significantly different results than those identified and recorded in the financial statements.

For a long-lived asset classified as held for sale, impairment exists when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If the asset (disposal group) is impaired, an impairment loss is recorded to adjust the carrying amount to its fair value less cost to sell. A gain is recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative impairment recognized.

For determining fair value, quoted market prices in active markets are the best evidence. However, when market prices are unavailable, KU considers all valuation techniques appropriate under the circumstances and for which market participant inputs can be obtained. Generally discounted cash flows are used to estimate fair value, which incorporates market participant inputs when available. Discounted cash flows are calculated by estimating future cash flow streams and applying appropriate discount rates to determine the present value of the cash flow streams.

In 2011, KU did not recognize an impairment of any long-lived assets.

Goodwill is tested for impairment at the reporting unit level. KU's reporting unit has been determined to be at the operating segment level. A goodwill impairment test is performed annually or more frequently if events or changes in circumstances indicate that the carrying value of the reporting unit may be greater than the unit's fair value. Additionally, goodwill is tested for impairment after a portion of goodwill has been allocated to a business to be disposed of. Goodwill is tested for impairment using a two-step approach. In step 1, KU identifies a potential impairment by comparing the estimated fair value of KU (the goodwill reporting unit) to its carrying value, including goodwill, on the measurement date. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.

The second step requires a calculation of the implied fair value of goodwill, which is determined in the same manner as the amount of goodwill in a business combination. That is, the estimated fair value is allocated to all of KU's assets and liabilities as if KU had been acquired in a business combination and the estimated fair value of KU was the price paid. The excess of the estimated fair value of KU over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of goodwill is then compared with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of the reporting unit's goodwill.

KU tested goodwill for impairment in the fourth quarter of 2011 and no impairment was recognized. Management used both discounted cash flows and market multiples to estimate the fair value of LKE, which involved the use of significant estimates and assumptions. Applying an appropriate weighting to both the discounted cash flow and market multiple valuations, a decrease in the forecasted cash flows of 10%, an increase in the discount rate by 25 basis points, or a 10% decrease in the multiples would not have resulted in an impairment of goodwill.

5) Loss Accruals

Losses are accrued for the estimated impacts of various conditions, situations or circumstances involving uncertain or contingent future outcomes. For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that a loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The accrual of contingencies that might result in gains is not recorded unless recovery is assured. Potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events are continuously assessed.

The accounting aspects of estimated loss accruals include (1) the initial identification and recording of the loss, (2) the determination of triggering events for reducing a recorded loss accrual and (3) the ongoing assessment as to whether a recorded loss accrual is sufficient. All three of these aspects require significant judgment by management. Internal expertise and outside experts (such as lawyers and engineers) are used, as necessary to help estimate the probability that a loss has been incurred and the amount (or range) of the loss.

In 2011, no significant adjustments were made to KU's existing contingencies. See Note 15 to the Financial Statements for commitment and contingency disclosures.

Certain other events have been identified that could give rise to a loss, but that do not meet the conditions for accrual. Such events are disclosed, but not recorded, when it is reasonably possible that a loss has been incurred. Accounting guidance defines "reasonably possible" as cases in which "the future event or events occurring is more than remote, but less than likely to occur." See Note 15 to the Financial Statements for disclosure of other potential loss contingencies that have not met the criteria for accrual.

When an estimated loss is accrued, the triggering events for subsequently adjusting the loss accrual are identified, where applicable. The triggering events generally occur when the contingency has been resolved and the actual loss is paid or written off, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the adjustment of certain recorded loss accruals:

- Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted, a better estimate of the allowance is determined or underlying amounts are ultimately collected.

- Environmental and other litigation contingencies are reduced when the contingency is resolved, KU makes actual payments, a better estimate of the loss is determined or the loss is no longer considered probable.

Loss accruals are reviewed on a regular basis to assure that the recorded potential loss exposures are appropriate. This involves ongoing communication and analyses with internal and external legal counsel, engineers, operation management and other parties.

6) Asset Retirement Obligations

KU is required to recognize a liability for legal obligations associated with the retirement of long-lived assets. The initial obligation is measured at its estimated fair value. An equivalent amount is recorded as an increase in the value of the capitalized asset and allocated to expense over the useful life of the asset. Until the obligation is settled, the liability is increased, through the recognition of accretion expense in the Statements of Income, for changes in the obligation due to the passage of time. The accretion and depreciation are offset with a regulatory credit on the income statement, such that there is no earnings impact. The regulatory asset created by the regulatory credit is relieved when the ARO has been settled. An ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated. See Note 21 to the Financial Statements for related disclosures.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that considers estimated retirement costs in current period dollars that are inflated to the anticipated retirement date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of various AROs and the related assets, are reviewed periodically to ensure that any material changes are incorporated into the estimate of the obligations. Any change to the capitalized asset is amortized over the remaining life of the associated long-lived asset.

At December 31, 2011, KU had AROs totaling $61 million recorded on the Balance Sheet. Of the total amount, $40 million, or 66%, relates to KU's ash ponds. The most significant assumptions surrounding AROs are the forecasted retirement costs, the discount rates and the inflation rates. A variance in the forecasted retirement costs, the discount rates or the inflation rates could have a significant impact on the ARO liabilities.

The following chart reflects the sensitivities related to KU's ARO liabilities for ash ponds at December 31, 2011:

	Change in Assumption	Impact on ARO Liability
Retirement Cost	10%	$ 4
Discount Rate	(0.25)%	2
Inflation Rate	0.25%	2

7) Income Taxes

Significant management judgment is required in developing KU's provision for income taxes primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and the determination of deferred tax assets, liabilities and valuation allowances.

Significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. KU evaluates its tax positions following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization upon settlement that exceeds 50%. KU's management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, KU's uncertain tax positions are reassessed by considering information known at the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position maybe de-recognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future.

At December 31, 2011, KU's existing reserve exposure to either increases or decreases in unrecognized tax benefits during the next 12 months is less than $1 million. This change could result from subsequent recognition, de-recognition and/or changes in the measurement of uncertain tax positions. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized to account for an uncertain tax position. See Note 5 to the Financial Statements for related disclosures.

8) Regulatory Assets and Liabilities

KU is a cost-based rate-regulated utility. As a result, the effects of regulatory actions are required to be reflected in the financial statements. Assets and liabilities are recorded that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in regulated customer rates. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC, the KPSC, the VSCC or the TRA. See Note 6 to the Financial Statements for related disclosures.

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to other regulated entities and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, then asset write-off would be required to be recognized in operating income. Additionally, the regulatory agencies can provide flexibility in the manner and timing of the depreciation of PP&E and amortization of regulatory assets.

At December 31, 2011 and 2010, KU had regulatory assets of $217 million and $230 million. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices. At December 31, 2011 and 2010, KU had regulatory liabilities of $535 million and $574 million.

Other Information

PPL's Audit Committee has approved the independent auditor to provide audit, tax and other services permitted by Sarbanes-Oxley and SEC rules. The audit services include services in connection with statutory and regulatory filings, reviews of offering documents and registration statements, and internal control reviews. See "Item 14. Principal Accounting Fees and Services" for more information.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Reference is made to "Risk Management - Energy Marketing & Trading and Other" for PPL and PPL Energy Supply and "Risk Management" for PPL Electric, LKE, LG&E and KU in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareowners of PPL Corporation

We have audited the accompanying consolidated balance sheets of PPL Corporation and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. We did not audit the 2010 financial statements of LG&E and KU Energy LLC (LKE), a wholly owned subsidiary, which statements reflect total assets of $10,719 million as of December 31, 2010, and total revenues of $493 million for the period November 1, 2010 (date of acquisition) to December 31, 2010. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for LKE, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and, for 2010, the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Corporation and subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PPL Corporation's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 28, 2012

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareowners of PPL Corporation

We have audited PPL Corporation's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). PPL Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in Management's Report on Internal Control over Financial Reporting at Item 9A. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's 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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of 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.

As set forth in Item 9A, Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of WPD Midlands, which is included in the 2011 consolidated financial statements of PPL Corporation and subsidiaries and constituted 19% and 27% of total assets and net assets, respectively, as of December 31, 2011 and 6% and 9% of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of PPL Corporation and subsidiaries also did not include an evaluation of the internal control over financial reporting of WPD Midlands.

In our opinion, PPL Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PPL Corporation and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2011 and our report dated February 28, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 28, 2012

Report of Independent Registered Public Accounting Firm

To the Board of Managers and Sole Member of PPL Energy Supply, LLC

We have audited the accompanying consolidated balance sheets of PPL Energy Supply, LLC and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Energy Supply, LLC and subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 28, 2012

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareowners of PPL Electric Utilities Corporation

We have audited the accompanying consolidated balance sheets of PPL Electric Utilities Corporation and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PPL Electric Utilities Corporation and subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 28, 2012

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Sole Member of LG&E and KU Energy LLC

We have audited the accompanying consolidated balance sheet of LG&E and KU Energy LLC and subsidiaries as of December 31, 2011, and the related consolidated statements of income, comprehensive income, cash flows, and equity for the year then ended. Our audit also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LG&E and KU Energy LLC and subsidiaries at December 31, 2011 and the consolidated results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 28, 2012

Report of Independent Registered Public Accounting Firm

To the Member of LG&E and KU Energy LLC

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, retained earnings, comprehensive income, cash flows, and capitalization present fairly, in all material respects, the financial position of LG&E and KU Energy LLC and its subsidiaries (Successor Company) at December 31, 2010 and the results of their operations and their cash flows for the period from November 1, 2010 to December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 10 to the consolidated financial statements, on November 1, 2010, PPL Corporation completed its acquisition of LG&E and KU Energy LLC and its subsidiaries. The push-down basis of accounting was used at the acquisition date.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky
February 25, 2011

Report of Independent Registered Public Accounting Firm

To the Member of LG&E and KU Energy LLC

In our opinion, the accompanying consolidated statements of income, retained earnings (deficit), comprehensive income (loss), cash flows, and capitalization present fairly, in all material respects, the results of operations and cash flows of LG&E and KU Energy LLC and its subsidiaries (formerly E.ON U.S. LLC, Predecessor Company) for the period from January 1, 2010 to October 31, 2010 and for the year ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 10 to the consolidated financial statements, on November 1, 2010, PPL Corporation completed its acquisition of LG&E and KU Energy LLC and its subsidiaries. The push-down basis of accounting was used at the acquisition date.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky
February 25, 2011

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Sole Stockholder of Louisville Gas and Electric Company

We have audited the accompanying balance sheet of Louisville Gas and Electric Company as of December 31, 2011, and the related statements of income, comprehensive income, cash flows, and equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisville Gas and Electric Company at December 31, 2011 and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 28, 2012

Report of Independent Registered Public Accounting Firm

To the Stockholder of Louisville Gas and Electric Company

In our opinion, the accompanying balance sheet and the related statements of income, retained earnings, comprehensive income, cash flows, and capitalization present fairly, in all material respects, the financial position of Louisville Gas and Electric Company (Successor Company) at December 31, 2010 and the results of its operations and its cash flows for the period from November 1, 2010 to December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 10 to the financial statements, on November 1, 2010, PPL Corporation completed its acquisition of LG&E and KU Energy LLC and its subsidiaries. The push-down basis of accounting was used at the acquisition date.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky
February 25, 2011

Report of Independent Registered Public Accounting Firm

To the Stockholder of Louisville Gas and Electric Company

In our opinion, the accompanying statements of income, retained earnings, comprehensive income, cash flows, and capitalization present fairly, in all material respects, the results of operations and cash flows of Louisville Gas and Electric Company (Predecessor Company) for the period from January 1, 2010 to October 31, 2010 and for the year ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 10 to the financial statements, on November 1, 2010, PPL Corporation completed its acquisition of LG&E and KU Energy LLC and its subsidiaries. The push-down basis of accounting was used at the acquisition date.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky
February 25, 2011

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Sole Stockholder of Kentucky Utilities Company

We have audited the accompanying balance sheet of Kentucky Utilities Company as of December 31, 2011, and the related statements of income, comprehensive income, cash flows, and equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kentucky Utilities Company at December 31, 2011 and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Louisville, Kentucky
February 28, 2012

Report of Independent Registered Public Accounting Firm

To the Stockholder of Kentucky Utilities Company

In our opinion, the accompanying balance sheet and the related statements of income, retained earnings, comprehensive income, cash flows, and capitalization present fairly, in all material respects, the financial position of Kentucky Utilities Company (Successor Company) at December 31, 2010 and the results of its operations and its cash flows for the period from November 1, 2010 to December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 10 to the financial statements, on November 1, 2010, PPL Corporation completed its acquisition of LG&E and KU Energy LLC and its subsidiaries. The push-down basis of accounting was used at the acquisition date.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky
February 25, 2011

Report of Independent Registered Public Accounting Firm

To the Stockholder of Kentucky Utilities Company

In our opinion, the accompanying statements of income, retained earnings, comprehensive income, cash flows, and capitalization present fairly, in all material respects, the results of operations and cash flows of Kentucky Utilities Company (Predecessor Company) for the period from January 1, 2010 to October 31, 2010 and for the year ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 10 to the financial statements, on November 1, 2010, PPL Corporation completed its acquisition of LG&E and KU Energy LLC and its subsidiaries. The push-down basis of accounting was used at the acquisition date.

/s/ PricewaterhouseCoopers LLP

Louisville, Kentucky
February 25, 2011

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars, except share data)

	2011	2010	2009
Operating Revenues			
Utility	**$ 6,292**	$ 3,668	$ 3,902
Unregulated retail electric and gas	**726**	415	152
Wholesale energy marketing			
Realized	**3,807**	4,832	3,184
Unrealized economic activity (Note 19)	**1,407**	(805)	(229)
Net energy trading margins	**(2)**	2	17
Energy-related businesses	**507**	409	423
Total Operating Revenues	**12,737**	8,521	7,449
Operating Expenses			
Operation			
Fuel	**1,946**	1,235	920
Energy purchases			
Realized	**2,130**	2,773	2,625
Unrealized economic activity (Note 19)	**1,123**	(286)	155
Other operation and maintenance	**2,667**	1,756	1,418
Amortization of recoverable transition costs			304
Depreciation	**960**	556	455
Taxes, other than income	**326**	238	280
Energy-related businesses	**484**	383	396
Total Operating Expenses	**9,636**	6,655	6,553
Operating Income	**3,101**	1,866	896
Other Income (Expense) - net	**4**	(31)	47
Other-Than-Temporary Impairments	**6**	3	18
Interest Expense	**898**	593	387
Income from Continuing Operations Before Income Taxes	**2,201**	1,239	538
Income Taxes	**691**	263	105
Income from Continuing Operations After Income Taxes	**1,510**	976	433
Income (Loss) from Discontinued Operations (net of income taxes)	**2**	(17)	(7)
Net Income	**1,512**	959	426
Net Income Attributable to Noncontrolling Interests	**17**	21	19
Net Income Attributable to PPL Corporation	**$ 1,495**	$ 938	$ 407
Amounts Attributable to PPL Corporation:			
Income from Continuing Operations After Income Taxes	**$ 1,493**	$ 955	$ 414
Income (Loss) from Discontinued Operations (net of income taxes)	**2**	(17)	(7)
Net Income	**$ 1,495**	$ 938	$ 407
Earnings Per Share of Common Stock:			
Income from Continuing Operations After Income Taxes Available to PPL Corporation Common Shareowners:			
Basic	**$ 2.70**	$ 2.21	$ 1.10
Diluted	**$ 2.70**	$ 2.20	$ 1.10
Net Income Available to PPL Corporation Common Shareowners:			
Basic	**$ 2.71**	$ 2.17	$ 1.08
Diluted	**$ 2.70**	$ 2.17	$ 1.08
Dividends Declared Per Share of Common Stock	**$ 1.40**	$ 1.40	$ 1.38
Weighted-Average Shares of Common Stock Outstanding (in thousands)			
Basic	**550,395**	431,345	376,082

Diluted	**550,952**	431,569	376,406

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars)

	2011	2010	2009
Net income	**$ 1,512**	$ 959	$ 426
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Foreign currency translation adjustments, net of tax of ($2), ($1), $4	**(48)**	(59)	101
Available-for-sale securities, net of tax of ($6), ($31), ($50)	**9**	29	49
Qualifying derivatives, net of tax of ($139), ($148), ($356)	**202**	219	492
Equity investees' other comprehensive income (loss), net of tax of $0, $0, $0			1
Defined benefit plans:			
Prior service costs, net of tax of ($1), ($14), ($1)	**(3)**	17	1
Net actuarial gain (loss), net of tax of $58, $50, $147	**(152)**	(80)	(340)
Transition obligation, net of tax of $0, ($4), $0		8	
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Available-for-sale securities, net of tax of $5, $3, $3	**(7)**	(5)	(4)
Qualifying derivatives, net of tax of $246, $84, ($92)	**(370)**	(126)	131
Equity investees' other comprehensive income (loss), net of tax of $0, $0, $0	**3**		
Defined benefit plans:			
Prior service costs, net of tax of ($5), ($7), ($8)	**10**	12	13
Net actuarial loss, net of tax of ($19), ($14), ($4)	**47**	41	4
Transition obligation, net of tax of $0, ($1), ($1)		2	1
Total other comprehensive income (loss) attributable to PPL Corporation	**(309)**	58	449
Comprehensive income (loss)	**1,203**	1,017	875
Comprehensive income attributable to noncontrolling interests	**17**	21	19
Comprehensive income (loss) attributable to PPL Corporation	**$ 1,186**	$ 996	$ 856

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

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars)

	2011	2010	2009
Cash Flows from Operating Activities			
Net income	**$ 1,512**	$ 959	$ 426
Adjustments to reconcile net income to net cash provided by operating activities			
Pre-tax gain from the sale of the Maine hydroelectric generation business		(25)	(38)
Depreciation	**961**	567	471
Amortization	**254**	213	389
Defined benefit plans - expense	**205**	102	70
Deferred income taxes and investment tax credits	**582**	241	104
Impairment of assets	**13**	120	127
Unrealized (gains) losses on derivatives, and other hedging activities	**(314)**	542	329
Provision for Montana hydroelectric litigation	**(74)**	66	8
Other	**36**	57	13
Change in current assets and current liabilities			
Accounts receivable	**(89)**	(100)	76
Accounts payable	**(36)**	216	(150)
Unbilled revenue	**64**	(100)	6
Prepayments	**294**	(318)	(17)
Counterparty collateral	**(190)**	(18)	334
Price risk management assets and liabilities	**2**	(24)	(231)
Taxes	**(104)**	20	(3)
Regulatory assets and liabilities, net	**106**	(110)	31
Accrued interest	**109**	50	(20)
Other	**4**	28	80
Other operating activities			
Defined benefit plans - funding	**(667)**	(396)	(185)
Other assets	**(62)**	(45)	12
Other liabilities	**(99)**	(12)	20
Net cash provided by operating activities	**2,507**	2,033	1,852
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	**(2,487)**	(1,597)	(1,225)
Proceeds from the sale of certain non-core generation facilities	**381**		
Proceeds from the sale of the Long Island generation business		124	
Proceeds from the sale of the Maine hydroelectric generation business		38	81
Acquisition of WPD Midlands	**(5,763)**		
Acquisition of LKE, net of cash acquired		(6,812)	
Purchases of nuclear plant decommissioning trust investments	**(169)**	(128)	(227)
Proceeds from the sale of nuclear plant decommissioning trust investments	**156**	114	201
Proceeds from the sale of other investments	**163**		154
Net (increase) decrease in restricted cash and cash equivalents	**(143)**	85	218
Other investing activities	**(90)**	(53)	(82)
Net cash provided by (used in) investing activities	**(7,952)**	(8,229)	(880)
Cash Flows from Financing Activities			
Issuance of long-term debt	**5,745**	4,642	298
Retirement of long-term debt	**(1,210)**	(20)	(1,016)
Issuance of common stock	**2,297**	2,441	60
Payment of common stock dividends	**(746)**	(566)	(517)
Redemption of preferred stock of a subsidiary		(54)	
Debt issuance and credit facility costs	**(102)**	(175)	(21)
Net increase (decrease) in short-term debt	**(125)**	70	(52)
Other financing activities	**(92)**	(31)	(23)
Net cash provided by (used in) financing activities	**5,767**	6,307	(1,271)
Effect of Exchange Rates on Cash and Cash Equivalents	**(45)**	13	
Net Increase (Decrease) in Cash and Cash Equivalents	**277**	124	(299)
Cash and Cash Equivalents at Beginning of Period	**925**	801	1,100
Cash and Cash Equivalents at End of Period	**$ 1,202**	$ 925	$ 801
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	**$ 696**	$ 458	$ 460
Income taxes - net	**$ (76)**	$ 313	$ 16

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars, shares in thousands)

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	**$ 1,202**	$ 925
Short-term investments	**16**	163
Restricted cash and cash equivalents	**152**	28
Accounts receivable (less reserve: 2011, $54; 2010, $55)		
Customer	**742**	652
Other	**85**	90
Unbilled revenues	**830**	789
Fuel, materials and supplies	**654**	643
Prepayments	**160**	435
Price risk management assets	**2,548**	1,918
Assets held for sale		374
Regulatory assets	**9**	85
Other current assets	**28**	86
Total Current Assets	**6,426**	6,188
Investments		
Nuclear plant decommissioning trust funds	**640**	618
Other investments	**78**	75
Total Investments	**718**	693
Property, Plant and Equipment		
Regulated utility plant	**22,994**	15,994
Less: accumulated depreciation - regulated utility plant	**3,534**	3,037
Regulated utility plant, net	**19,460**	12,957
Non-regulated property, plant and equipment		
Generation	**10,514**	10,165
Nuclear fuel	**658**	578
Other	**637**	403
Less: accumulated depreciation - non-regulated property, plant and equipment	**5,676**	5,440
Non-regulated property, plant and equipment, net	**6,133**	5,706
Construction work in progress	**1,673**	2,160
Property, Plant and Equipment, net (a)	**27,266**	20,823
Other Noncurrent Assets		
Regulatory assets	**1,349**	1,180
Goodwill	**4,114**	1,761
Other intangibles (a)	**1,065**	966
Price risk management assets	**920**	655
Other noncurrent assets	**790**	571
Total Other Noncurrent Assets	**8,238**	5,133
Total Assets	**$ 42,648**	$ 32,837

(a) At December 31, 2011 and December 31, 2010, includes $416 million and $424 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and $11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant. See Note 22 for additional information.

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars, shares in thousands)

	2011	2010
Liabilities and Equity		
Current Liabilities		
Short-term debt	**$ 578**	$ 694
Long-term debt due within one year		502
Accounts payable	**1,214**	1,028
Taxes	**65**	134
Interest	**287**	166
Dividends	**207**	174
Price risk management liabilities	**1,570**	1,144
Counterparty collateral	**148**	338
Regulatory liabilities	**73**	109
Other current liabilities	**1,113**	925
Total Current Liabilities	**5,255**	5,214
Long-term Debt	**17,993**	12,161
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**3,326**	2,563
Investment tax credits	**285**	237
Price risk management liabilities	**840**	470
Accrued pension obligations	**1,299**	1,496
Asset retirement obligations	**484**	435
Regulatory liabilities	**1,010**	1,031
Other deferred credits and noncurrent liabilities	**1,060**	752
Total Deferred Credits and Other Noncurrent Liabilities	**8,304**	6,984
Commitments and Contingent Liabilities (Notes 6 and 15)		
Equity		
PPL Corporation Shareowners' Common Equity		
Common stock - $0.01 par value (a)	**6**	5
Additional paid-in capital	**6,813**	4,602
Earnings reinvested	**4,797**	4,082
Accumulated other comprehensive loss	**(788)**	(479)
Total PPL Corporation Shareowners' Common Equity	**10,828**	8,210
Noncontrolling Interests	**268**	268
Total Equity	**11,096**	8,478
Total Liabilities and Equity	**$ 42,648**	$ 32,837

(a) 780,000 shares authorized; 578,405 and 483,391 shares issued and outstanding at December 31, 2011 and December 31, 2010.

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

CONSOLIDATED STATEMENTS OF EQUITY
PPL Corporation and Subsidiaries
(Millions of Dollars)

	PPL Corporation Shareowners						
	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Non-controlling interests	Total
December 31, 2008 (b)	374,581	$ 4	$ 2,196	$ 3,862	$ (985)	$ 319	$ 5,396
Common stock issued (c)	2,649		83				83
Common stock repurchased	(47)		(1)				(1)
Stock-based compensation			2				2
Net income				407		19	426
Dividends, dividend equivalents, redemptions and distributions (d)				(521)		(19)	(540)
Other comprehensive income					449		449
Cumulative effect adjustment (e)				1	(1)		
December 31, 2009 (b)	377,183	$ 4	$ 2,280	$ 3,749	$ (537)	$ 319	$ 5,815
Common stock issued (c)	106,208	$ 1	$ 2,490				$ 2,491
Purchase Contracts (f)			(176)				(176)
Stock-based compensation			8				8
Net income				$ 938		$ 21	959
Dividends, dividend equivalents, redemptions and distributions (d)				(605)		(72)	(677)
Other comprehensive income					$ 58		58
December 31, 2010 (b)	483,391	$ 5	$ 4,602	$ 4,082	$ (479)	$ 268	$ 8,478
Common stock issued (c)	95,014	$ 1	$ 2,344				$ 2,345
Purchase Contracts (f)			(143)				(143)
Stock-based compensation			10				10
Net income				$ 1,495		$ 17	1,512
Dividends, dividend equivalents, redemptions and distributions (d)				(780)		(17)	(797)
Other comprehensive loss					$ (309)		(309)
December 31, 2011 (b)	578,405	$ 6	$ 6,813	$ 4,797	$ (788)	$ 268	$ 11,096

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented to any shareowners' meeting.
(b) See "General - Comprehensive Income" in Note 1 for disclosure of balances of each component of AOCI.
(c) 2011 includes the April issuance of 92 million shares of common stock. See Note 7 for additional information. 2010 includes the June issuance of 103.5 million shares of common stock. Each year includes shares of common stock issued through various stock and incentive compensation plans.
(d) "Earnings reinvested" includes dividends and dividend equivalents on PPL Corporation common stock and restricted stock units. "Noncontrolling interests" includes dividends, redemptions and distributions to noncontrolling interests. 2010 includes $54 million paid to redeem PPL Electric's preferred stock, including an insignificant premium.
(e) Recorded in connection with the adoption of accounting guidance related to the recognition and presentation of other-than-temporary impairments.
(f) 2011 includes $123 million for the 2011 Purchase Contracts and $20 million of related fees and expenses, net of tax. See Note 7 for additional information. 2010 includes $157 million for the 2010 Purchase Contracts and $19 million of related fees and expenses, net of tax.

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

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	2011	2010	2009
Operating Revenues			
Wholesale energy marketing			
Realized	**$ 3,807**	$ 4,832	$ 3,184
Unrealized economic activity (Note 19)	**1,407**	(805)	(229)
Wholesale energy marketing to affiliate	**26**	320	1,806
Unregulated retail electric and gas	**727**	415	152
Net energy trading margins	**(2)**	2	17
Energy-related businesses	**464**	364	379
Total Operating Revenues	**6,429**	5,128	5,309
Operating Expenses			
Operation			
Fuel	**1,080**	1,096	920
Energy purchases			
Realized	**1,160**	1,636	2,512
Unrealized economic activity (Note 19)	**1,123**	(286)	155
Energy purchases from affiliate	**3**	3	70
Other operation and maintenance	**929**	979	921
Depreciation	**244**	236	196
Taxes, other than income	**71**	46	29
Energy-related businesses	**458**	357	371
Total Operating Expenses	**5,068**	4,067	5,174
Operating Income	**1,361**	1,061	135
Other Income (Expense) - net	**23**	22	44
Other-Than-Temporary Impairments	**6**	3	18
Interest Income from Affiliates	**8**	9	2
Interest Expense	**174**	208	176
Income (Loss) from Continuing Operations Before Income Taxes	**1,212**	881	(13)
Income Taxes	**445**	261	3
Income (Loss) from Continuing Operations After Income Taxes	**767**	620	(16)
Income (Loss) from Discontinued Operations (net of income taxes)	**2**	242	263
Net Income	**769**	862	247
Net Income Attributable to Noncontrolling Interests	**1**	1	1
Net Income Attributable to PPL Energy Supply	**$ 768**	$ 861	$ 246
Amounts Attributable to PPL Energy Supply:			
Income (Loss) from Continuing Operations After Income Taxes	**$ 766**	$ 619	$ (17)
Income (Loss) from Discontinued Operations (net of income taxes)	**2**	242	263
Net Income	**$ 768**	$ 861	$ 246

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	2011	2010	2009
Net income	**$ 769**	$ 862	$ 247
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Foreign currency translation adjustments, net of tax of $0, ($1), $4		(59)	101
Available-for-sale securities, net of tax of ($6), ($31), ($50)	**9**	29	49
Qualifying derivatives, net of tax of ($164), ($207), ($330)	**267**	305	454
Equity investee's other comprehensive income (loss), net of tax of $0, $0, $0			1
Defined benefit plans:			
Prior service costs, net of tax of ($2), ($8), $0	**(2)**	12	1
Net actuarial gain (loss), net of tax of $13, $36, $136	**(22)**	(63)	(326)
Transition obligation, net of tax of $0, ($3), $0		6	
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Available-for-sale securities, net of tax of $5, $3, $3	**(7)**	(5)	(4)
Qualifying derivatives, net of tax of $242, $99, ($91)	**(353)**	(145)	131
Equity investee's other comprehensive income (loss), net of tax of $0, $0, $0	**3**		
Defined benefit plans:			
Prior service costs, net of tax of ($3), ($5), ($6)	**4**	9	9
Net actuarial loss, net of tax of ($2), ($14), ($3)	**4**	39	4
Transition obligation, net of tax of $0, ($1), ($1)		1	1
Total other comprehensive income (loss) attributable to PPL Energy Supply	**(97)**	129	421
Comprehensive income (loss)	**672**	991	668
Comprehensive income attributable to noncontrolling interests	**1**	1	1
Comprehensive income (loss) attributable to PPL Energy Supply	**$ 671**	$ 990	$ 667

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

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	2011	2010	2009
Cash Flows from Operating Activities			
Net income	**$ 769**	$ 862	$ 247
Adjustments to reconcile net income to net cash provided by operating activities			
Pre-tax gain from the sale of the Maine hydroelectric generation business		(25)	(38)
Depreciation	**245**	365	327
Amortization	**137**	160	75
Defined benefit plans - expense	**36**	52	23
Deferred income taxes and investment tax credits	**317**	(31)	141
Impairment of assets	**13**	120	123
Unrealized (gains) losses on derivatives, and other hedging activities	**(283)**	536	330
Provision for Montana hydroelectric litigation	**(74)**	66	8
Other	**25**	41	14
Change in current assets and current liabilities			
Accounts receivable	**38**	(18)	77
Accounts payable	**(89)**	20	(178)
Unbilled revenue	**14**	(88)	9
Collateral on PLR energy supply to affiliate			300
Taxes	**27**	87	(16)
Counterparty collateral	**(190)**	(18)	334
Price risk management assets and liabilities	**3**	(27)	(223)
Other	**(21)**	35	7
Other operating activities			
Defined benefit plans - funding	**(152)**	(302)	(136)
Other assets	**(30)**	(71)	15
Other liabilities	**(9)**	76	(26)
Net cash provided by operating activities	**776**	1,840	1,413
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	**(661)**	(1,009)	(907)
Proceeds from the sale of certain non-core generation facilities	**381**		
Proceeds from the sale of the Long Island generation business		124	
Proceeds from the sale of the Maine hydroelectric generation business		38	81
Expenditures for intangible assets	**(57)**	(82)	(78)
Purchases of nuclear plant decommissioning trust investments	**(169)**	(128)	(227)
Proceeds from the sale of nuclear plant decommissioning trust investments	**156**	114	201
Proceeds from the sale of other investments			154
Issuance of long-term notes receivable to affiliates		(1,816)	
Repayment of long-term notes receivable from affiliates		1,816	
Net (increase) decrease in notes receivable from affiliates	**(198)**		
Net (increase) decrease in restricted cash and cash equivalents	**(128)**	84	219
Other investing activities	**8**	34	6
Net cash provided by (used in) investing activities	**(668)**	(825)	(551)
Cash Flows from Financing Activities			
Issuance of long-term debt	**500**	602	
Retirement of long-term debt	**(750)**		(220)
Contributions from Member	**461**	3,625	50
Distributions to Member	**(316)**	(4,692)	(943)
Cash included in net assets of subsidiary distributed to member	**(325)**		
Net increase (decrease) in short-term debt	**50**	(93)	43
Other financing activities	**(10)**	(54)	(11)
Net cash provided by (used in) financing activities	**(390)**	(612)	(1,081)
Effect of Exchange Rates on Cash and Cash Equivalents		13	
Net Increase (Decrease) in Cash and Cash Equivalents	**(282)**	416	(219)
Cash and Cash Equivalents at Beginning of Period	**661**	245	464
Cash and Cash Equivalents at End of Period	**$ 379**	$ 661	$ 245
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	**$ 165**	$ 275	$ 274
Income taxes - net	**$ 69**	$ 278	$ (91)

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	**$ 379**	$ 661
Restricted cash and cash equivalents	**145**	19
Accounts receivable (less reserve: 2011, $15; 2010, $20)		
Customer	**169**	225
Other	**31**	24
Accounts receivable from affiliates	**89**	124
Unbilled revenues	**402**	486
Note receivable from affiliates	**198**	
Fuel, materials and supplies	**298**	297
Prepayments	**14**	89
Price risk management assets	**2,527**	1,907
Assets held for sale		374
Other current assets	**11**	22
Total Current Assets	**4,263**	4,228
Investments		
Nuclear plant decommissioning trust funds	**640**	618
Other investments	**40**	37
Total Investments	**680**	655
Property, Plant and Equipment		
Regulated utility plant		4,269
Less: accumulated depreciation - regulated utility plant		888
Regulated utility plant, net		3,381
Non-regulated property, plant and equipment		
Generation	**10,517**	10,169
Nuclear fuel	**658**	578
Other	**245**	314
Less: accumulated depreciation - non-regulated property, plant and equipment	**5,573**	5,401
Non-regulated property, plant and equipment, net	**5,847**	5,660
Construction work in progress	**639**	594
Property, Plant and Equipment, net (a)	**6,486**	9,635
Other Noncurrent Assets		
Goodwill	**86**	765
Other intangibles (a)	**386**	464
Price risk management assets	**896**	651
Other noncurrent assets	**382**	398
Total Other Noncurrent Assets	**1,750**	2,278
Total Assets	**$ 13,179**	$ 16,796

(a) At December 31, 2011 and December 31, 2010, includes $416 million and $424 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and $11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant. See Note 22 for additional information.

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	2011	2010
Liabilities and Equity		
Current Liabilities		
Short-term debt	**$ 400**	$ 531
Long-term debt due within one year		500
Accounts payable	**472**	592
Accounts payable to affiliates	**14**	43
Taxes	**90**	119
Interest	**30**	110
Price risk management liabilities	**1,560**	1,112
Counterparty collateral	**148**	338
Deferred income taxes	**315**	216
Other current liabilities	**196**	408
Total Current Liabilities	**3,225**	3,969
Long-term Debt	**3,024**	5,089
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**1,223**	1,548
Investment tax credits	**136**	81
Price risk management liabilities	**785**	438
Accrued pension obligations	**214**	619
Asset retirement obligations	**349**	332
Other deferred credits and noncurrent liabilities	**186**	211
Total Deferred Credits and Other Noncurrent Liabilities	**2,893**	3,229
Commitments and Contingent Liabilities (Note 15)		
Equity		
Member's equity	**4,019**	4,491
Noncontrolling interests	**18**	18
Total Equity	**4,037**	4,509
Total Liabilities and Equity	**$ 13,179**	$ 16,796

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

CONSOLIDATED STATEMENTS OF EQUITY
PPL Energy Supply, LLC and Subsidiaries
(Millions of Dollars)

	Member's equity	Non-controlling interests	Total
December 31, 2008 (a)	$ 4,794	$ 18	$ 4,812
Net income	246	1	247
Other comprehensive income (loss)	421		421
Contributions from member	50		50
Distributions	(943)	(1)	(944)
December 31, 2009 (a)	$ 4,568	$ 18	$ 4,586
Net income	$ 861	$ 1	$ 862
Other comprehensive income (loss)	129		129
Contributions from member	3,625		3,625
Distributions	(4,692)	(1)	(4,693)
December 31, 2010 (a)	$ 4,491	$ 18	$ 4,509
Net income	$ 768	$ 1	$ 769
Other comprehensive income (loss)	(97)		(97)
Contributions from member	461		461
Distributions	(316)	(1)	(317)
Distribution of membership interest in PPL Global (b)	(1,288)		(1,288)
December 31, 2011 (a)	$ 4,019	$ 18	$ 4,037

(a) See "General - Comprehensive Income" in Note 1 for disclosure of balances of each component of AOCI.
(b) See Note 9 for additional information.

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

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CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	2011	2010	2009
Operating Revenues			
Retail electric	**$ 1,881**	$ 2,448	$ 3,218
Electric revenue from affiliate	**11**	7	74
Total Operating Revenues	**1,892**	2,455	3,292
Operating Expenses			
Operation			
Energy purchases	**738**	1,075	114
Energy purchases from affiliate	**26**	320	1,806
Other operation and maintenance	**530**	502	417
Amortization of recoverable transition costs			304
Depreciation	**146**	136	128
Taxes, other than income	**104**	138	194
Total Operating Expenses	**1,544**	2,171	2,963
Operating Income	**348**	284	329
Other Income (Expense) - net	**5**	5	6
Interest Income from Affiliate	**2**	2	4
Interest Expense	**98**	99	116
Interest Expense with Affiliate			2
Income Before Income Taxes	**257**	192	221
Income Taxes	**68**	57	79
Net Income (a)	**189**	135	142
Distributions on Preferred Securities	**16**	20	18
Net Income Available to PPL Corporation	**$ 173**	$ 115	$ 124

(a) Net income approximates comprehensive income.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	2011	2010	2009
Cash Flows from Operating Activities			
Net income	**$ 189**	$ 135	$ 142
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	**146**	136	128
Amortization	**8**	(23)	324
Defined benefit plans - expense	**18**	20	24
Deferred income taxes and investment tax credits	**106**	198	(22)
Other	**1**	4	
Change in current assets and current liabilities			
Accounts receivable	**(5)**	(32)	1
Accounts payable	**(68)**	31	(9)
Unbilled revenue	**36**	58	(3)
Prepayments	**58**	(112)	(17)
Regulatory assets and liabilities	**107**	(85)	31
Taxes	**(23)**	(38)	(4)
Collateral on PLR energy supply from affiliate			(300)
Other	**7**	(32)	26
Other operating activities			
Defined benefit plans- funding	**(113)**	(55)	(28)
Other assets	**(28)**	5	(3)
Other liabilities	**(19)**	2	4
Net cash provided by operating activities	**420**	212	294
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	**(481)**	(401)	(288)
Expenditures for intangible assets	**(9)**	(10)	(10)
Net (increase) decrease in notes receivable from affiliate			300
Other investing activities	**13**	8	4
Net cash provided by (used in) investing activities	**(477)**	(403)	6
Cash Flows from Financing Activities			
Issuance of long-term debt	**645**		298
Retirement of long-term debt	**(458)**		(595)
Contributions from PPL	**100**	55	400
Redemption of preferred stock		(54)	
Payment of common stock dividends to PPL	**(92)**	(71)	(274)
Net increase (decrease) in short-term debt			(95)
Dividends on preferred securities	**(16)**	(17)	(18)
Other financing activities	**(6)**	(3)	(14)
Net cash provided by (used in) financing activities	**173**	(90)	(298)
Net Increase (Decrease) in Cash and Cash Equivalents	**116**	(281)	2
Cash and Cash Equivalents at Beginning of Period	**204**	485	483
Cash and Cash Equivalents at End of Period	**$ 320**	$ 204	$ 485
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	**$ 75**	$ 87	$ 116
Income taxes - net	**$ (44)**	$ (33)	$ 106

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars, shares in thousands)

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	**$ 320**	$ 204
Accounts receivable (less reserve: 2011, $17; 2010, $17)		
Customer	**271**	268
Other	**9**	24
Accounts receivable from affiliates	**35**	8
Unbilled revenues	**98**	134
Materials and supplies	**42**	47
Prepayments	**78**	136
Regulatory assets		63
Other current assets	**30**	4
Total Current Assets	**883**	**888**
Property, Plant and Equipment		
Regulated utility plant	**5,830**	5,494
Less: accumulated depreciation - regulated utility plant	**2,217**	2,123
Regulated utility plant, net	**3,613**	3,371
Other, net	**2**	2
Construction work in progress	**242**	177
Property, Plant and Equipment, net	**3,857**	3,550
Other Noncurrent Assets		
Regulatory assets	**729**	592
Intangibles	**155**	147
Other noncurrent assets	**81**	76
Total Other Noncurrent Assets	**965**	815
Total Assets	**$ 5,705**	$ 5,253

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars, shares in thousands)

	2011	2010
Liabilities and Equity		
Current Liabilities		
Accounts payable	$ **171**	$ 221
Accounts payable to affiliates	**64**	73
Taxes		23
Interest	**24**	17
Regulatory liabilities	**53**	18
Customer deposits and prepayments	**39**	36
Vacation	**22**	21
Other current liabilities	**47**	69
Total Current Liabilities	**420**	478
Long-term Debt	**1,718**	1,472
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**1,115**	932
Investment tax credits	**5**	7
Accrued pension obligations	**186**	259
Regulatory liabilities	**7**	14
Other deferred credits and noncurrent liabilities	**129**	147
Total Deferred Credits and Other Noncurrent Liabilities	**1,442**	1,359
Commitments and Contingent Liabilities (Notes 6 and 15)		
Shareowners' Equity		
Preferred securities	**250**	250
Common stock - no par value (a)	**364**	364
Additional paid-in capital	**979**	879
Earnings reinvested	**532**	451
Total Equity	**2,125**	1,944
Total Liabilities and Equity	**$ 5,705**	$ 5,253

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

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

CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	Common stock shares outstanding (a)	Preferred securities	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2008	66,368	$ 301	$ 364	$ 424	$ 557	$ 1,646
Net income					142	142
Capital contributions from PPL				400		400
Cash dividends declared on preferred securities					(18)	(18)
Cash dividends declared on common stock					(274)	(274)
December 31, 2009	66,368	$ 301	$ 364	$ 824	$ 407	$ 1,896
Net income					$ 135	$ 135
Redemption of preferred stock (b)		$ (51)			(3)	(54)
Capital contributions from PPL				$ 55		55
Cash dividends declared on preferred securities					(17)	(17)
Cash dividends declared on common stock					(71)	(71)
December 31, 2010	66,368	$ 250	$ 364	$ 879	$ 451	$ 1,944
Net income					$ 189	$ 189
Capital contributions from PPL				$ 100		100
Cash dividends declared on preferred securities					(16)	(16)
Cash dividends declared on common stock					(92)	(92)
December 31, 2011	66,368	$ 250	$ 364	$ 979	$ 532	$ 2,125

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.
(b) In April 2010, PPL Electric redeemed all of its outstanding preferred stock. See Note 3 for additional information.

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

CONSOLIDATED STATEMENTS OF INCOME
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	Successor		Predecessor	
	Year Ended December 31, 2011	**Two Months Ended December 31, 2010**	**Ten Months Ended October 31, 2010**	**Year Ended December 31, 2009**
Operating Revenues	**$ 2,793**	$ 494	$ 2,214	$ 2,501
Operating Expenses				
Operation				
Fuel	**866**	138	723	762
Energy purchases	**238**	68	211	379
Other operation and maintenance	**751**	141	586	647
Depreciation	**334**	49	235	271
Taxes, other than income	**37**	2	21	31
Total Operating Expenses	**2,226**	398	1,776	2,090
Loss on Impairment of Goodwill				1,493
Operating Income (Loss)	**567**	96	438	(1,082)
Other Income (Expense) - net	**(1)**	(2)	14	23
Interest Expense	**146**	20	21	21
Interest Expense with Affiliate	**1**	4	131	155
Income (Loss) from Continuing Operations Before Income Taxes	**419**	70	300	(1,235)
Income Taxes	**153**	25	109	82
Income (Loss) from Continuing Operations After Income Taxes	**266**	45	191	(1,317)
Income (Loss) from Discontinued Operations (net of income taxes)	**(1)**	2	(1)	(220)
Net Income (Loss)	**265**	47	190	(1,537)
Noncontrolling Interest - Loss from Discontinued Operations				5
Net Income (Loss) Attributable to Member	**$ 265**	$ 47	$ 190	$ (1,542)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Net income (loss)	**$ 265**	$ 47	$ 190	$ (1,537)
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of $0, $0, $0, and $2				(6)
Qualifying derivatives, net of tax of $0, $0, ($7), and ($2)			10	4
Equity investee's other comprehensive income (loss), net of tax of $0, $0, $1, and $0			(2)	
Defined benefit plans:				
Prior service costs, net of tax of $1, $0, $0, and $0	**(2)**			
Net actuarial loss, net of tax of ($1), ($3), $15, and ($7)		6	(20)	10
Reclassification to net income - (gains) losses, net of tax expense (benefit):				
Qualifying derivatives, net of tax of $0, $0, $0, and $0				(1)
Defined benefit plans:				
Prior service costs, net of tax of $0, $0, ($1), and ($2)			1	4
Net actuarial loss, net of tax of $1, $0, ($1), and ($2)			1	4
Total other comprehensive income (loss)	**(2)**	6	(10)	15
Comprehensive income (loss)	**263**	53	180	(1,522)
Noncontrolling interest - loss from discontinued operations				5
Other comprehensive income allocable to discontinued operations:				
Foreign currency translation adjustments, net of tax of $0, $0, $0, and ($1)				3
Comprehensive income (loss) attributable to member	**$ 263**	$ 53	$ 180	$ (1,524)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Cash Flows from Operating Activities				
Net income (loss)	**$ 265**	$ 47	$ 190	$ (1,537)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities				
Depreciation	**334**	49	235	271
Amortization of regulatory assets	**18**	3		
Defined benefit plans - expense	**51**	12	52	83
Deferred income taxes and investment tax credits	**218**	52	65	43
Unrealized (gains) losses on derivatives			14	(33)
Loss from discontinued operations - net of tax			1	225
Loss on impairment of goodwill				1,493
Other	**(1)**	11	(23)	8
Change in current assets and current liabilities				
Accounts receivable	**18**	(17)	12	69
Accounts payable	**(31)**	(14)	(34)	(44)
Accounts payable to affiliates	**(1)**	4	(7)	(20)
Unbilled revenues	**24**	(70)	41	4
Fuel, materials and supplies	**16**	15	(28)	31
Income tax receivable	**37**	(40)	(2)	
Taxes	**(2)**	4	18	(76)
Other	**4**	(27)	47	6
Other operating activities				
Defined benefit plans - funding	**(170)**	(8)	(57)	(51)
Storm restoration regulatory asset				(101)
Discontinued operations			13	(655)
Other assets	**(8)**	12	14	53
Other liabilities	**(3)**	(7)	(63)	27
Net cash provided by (used in) operating activities	**769**	26	488	(204)
Cash Flows from Investing Activities				
Expenditures for property, plant and equipment	**(465)**	(152)	(447)	(703)
Expenditures for property, plant and equipment - discontinued operations				(23)
Proceeds from sales of discontinued operations			21	
Proceeds from the sale of other investments	**163**			
Net (increase) decrease in notes receivable from affiliates	**46**	(61)		
Net (increase) decrease in restricted cash and cash equivalents	**(9)**	2		10
Other investing activities				10
Net cash provided by (used in) investing activities	**(265)**	(211)	(426)	(706)
Cash Flows from Financing Activities				
Issuance of short-term debt with affiliate		1,001	900	505
Retirement of short-term debt with affiliate		(1,001)	(575)	
Net increase (decrease) in notes payable with affiliates			(3)	(22)
Issuance of long-term debt with affiliate		1,783	50	725
Retirement of long-term debt with affiliate		(1,783)	(325)	(255)
Issuance of long-term debt	**250**	2,890		
Retirement of long-term debt	**(2)**			
Net increase (decrease) in short-term debt	**(163)**	163		
Repayment to E.ON AG affiliates		(4,319)		
Debt issuance and credit facility costs	**(8)**	(32)		
Distributions to member	**(533)**	(100)	(87)	(49)
Contributions from member		1,565		
Distributions to noncontrolling interests - discontinued operations				(2)
Net cash provided by (used in) financing activities	**(456)**	167	(40)	902
Net Increase (Decrease) in Cash and Cash Equivalents	**48**	(18)	22	(8)
Cash and Cash Equivalents at Beginning of Period	**11**	29	7	15
Cash and Cash Equivalents at End of Period	**$ 59**	$ 11	$ 29	$ 7
Supplemental Disclosures of Cash Flow Information				
Cash paid (received) during the period for:				
Interest - net of amount capitalized	**$ 126**	$ 41	$ 153	$ 161
Income taxes - net	**$ (98)**	$ (1)	$ 9	$ (8)

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	**$ 59**	$ 11
Short-term investments		163
Accounts receivable (less reserve: 2011, $17; 2010, $17)		
Customer	**135**	160
Other	**14**	33
Unbilled revenues	**146**	170
Accounts receivable from affiliates		2
Notes receivable from affiliates	**15**	61
Fuel, materials and supplies	**283**	298
Prepayments	**22**	21
Income tax receivable	**3**	40
Deferred income taxes	**17**	66
Other intangibles	**1**	58
Regulatory assets	**9**	22
Other current assets	**2**	5
Total Current Assets	**706**	1,110
Investments	**31**	31
Property, Plant and Equipment		
Regulated utility plant	**7,519**	6,230
Less: accumulated depreciation - regulated utility plant	**277**	31
Regulated utility plant, net	**7,242**	6,199
Other, net	**2**	4
Construction work in progress	**557**	1,340
Property, Plant and Equipment, net	**7,801**	7,543
Other Noncurrent Assets		
Regulatory assets	**620**	588
Goodwill	**996**	996
Other intangibles	**314**	356
Other noncurrent assets	**108**	94
Total Other Noncurrent Assets	**2,038**	2,034
Total Assets	**$ 10,576**	$ 10,718

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	2011	2010
Liabilities and Equity		
Current Liabilities		
Short-term debt		$ 163
Long-term debt due within one year		2
Accounts payable	**$ 224**	189
Accounts payable to affiliates	**2**	3
Customer deposits	**45**	46
Taxes	**25**	27
Regulatory liabilities	**20**	91
Interest payable	**23**	17
Salaries and benefits payable	**64**	69
Other current liabilities	**30**	36
Total Current Liabilities	**433**	643
Long-term Debt	**4,073**	3,823
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**413**	240
Investment tax credits	**144**	150
Price risk management liabilities	**55**	32
Accrued pension obligations	**359**	449
Asset retirement obligations	**116**	103
Regulatory liabilities	**1,003**	1,017
Other deferred credits and noncurrent liabilities	**239**	250
Total Deferred Credits and Other Noncurrent Liabilities	**2,329**	2,241
Commitments and Contingent Liabilities (Notes 6 and 15)		
Member's equity	**3,741**	4,011
Total Liabilities and Equity	**$ 10,576**	$ 10,718

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

CONSOLIDATED STATEMENTS OF EQUITY
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	Member's Equity	Non-controlling interests	Total
December 31, 2008 - Predecessor (a)	$ 3,765	$ 32	$ 3,797
Net income	(1,542)	5	(1,537)
Distributions to member	(49)		(49)
Dividends, dividend equivalents and distributions		(2)	(2)
Other comprehensive income (loss)	15		15
Noncontrolling interest - income (loss) from discontinued operations	3	(3)	
December 31, 2009 - Predecessor (a)	$ 2,192	$ 32	$ 2,224
Net income	$ 190		$ 190
Distributions to member	(81)		(81)
Other comprehensive income (loss)	(10)		(10)
Noncontrolling interest - income (loss) from discontinued operations	(11)	$ (32)	(43)
October 31, 2010 - Predecessor (a)	$ 2,280	$	$ 2,280
Effect of PPL acquisition	$ 213		$ 213
Net income	47		47
Contributions from member	1,565		1,565
Distributions to member	(100)		(100)
Other comprehensive income (loss)	6		6
December 31, 2010 - Successor (a)	$ 4,011		$ 4,011
Net income	$ 265		$ 265
Distributions to member	(533)		(533)
Other comprehensive income (loss)	(2)		(2)
December 31, 2011 - Successor (a)	$ 3,741		$ 3,741

(a) See "General - Comprehensive Income" in Note 1 for disclosure of balances of each component of AOCI.

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

STATEMENTS OF INCOME
Louisville Gas and Electric Company
(Millions of Dollars)

	Successor		Predecessor	
	Year Ended December 31, 2011	**Two Months Ended December 31, 2010**	**Ten Months Ended October 31, 2010**	**Year Ended December 31, 2009**
Operating Revenues				
Retail and wholesale	**$ 1,281**	$ 233	$ 978	$ 1,171
Electric revenue from affiliate	**83**	21	79	101
Total Operating Revenues	**1,364**	254	1,057	1,272
Operating Expenses				
Operation				
Fuel	**350**	60	306	328
Energy purchases	**209**	61	142	281
Energy purchases from affiliate	**36**	2	13	21
Other operation and maintenance	**363**	67	281	323
Depreciation	**147**	23	115	136
Taxes, other than income	**18**	1	12	16
Total Operating Expenses	**1,123**	214	869	1,105
Operating Income	**241**	40	188	167
Other Income (Expense) - net	**(2)**	(3)	17	19
Interest Expense	**44**	7	16	17
Interest Expense with Affiliate		1	22	27
Income Before Income Taxes	**195**	29	167	142
Income Taxes	**71**	10	58	47
Net Income	**$ 124**	$ 19	$ 109	$ 95

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

STATEMENTS OF COMPREHENSIVE INCOME
Louisville Gas and Electric Company
(Millions of Dollars)

	Successor		Predecessor	
	Year Ended December 31, 2011	**Two Months Ended December 31, 2010**	**Ten Months Ended October 31, 2010**	**Year Ended December 31, 2009**
Net income	**$ 124**	$ 19	$ 109	$ 95
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Qualifying derivatives, net of tax of $0, $0, ($7), and ($2)			10	5
Reclassifications to net income - (gains) losses, net of tax expense (benefit):				
Qualifying derivatives, net of tax of $0, $0, $0, and $0				(1)
Total other comprehensive income (loss)			10	4
Comprehensive income	**$ 124**	$ 19	$ 119	$ 99

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

STATEMENTS OF CASH FLOWS
Louisville Gas and Electric Company
(Millions of Dollars)

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Cash Flows from Operating Activities				
Net income	**$ 124**	$ 19	$ 109	$ 95
Adjustments to reconcile net income to net cash provided by (used in) operating activities				
Depreciation	**147**	23	115	136
Defined benefit plans - expense	**21**	4	20	33
Deferred income taxes and investment tax credits	**51**	13	21	15
Unrealized (gains) losses on derivatives			14	(33)
Regulatory asset for previously recorded losses on interest rate swaps			(22)	
Other	**13**	5	2	(3)
Change in current assets and current liabilities				
Accounts receivable	**26**	(27)	(2)	38
Accounts payable	**(24)**	17		37
Accounts payable to affiliates	**6**	(31)	23	(52)
Unbilled revenues	**16**	(38)	22	18
Fuel, materials and supplies	**20**	10	(22)	45
Other	**(1)**	(2)	(47)	39
Other operating activities				
Defined benefit plans - funding	**(70)**	(1)	(25)	(15)
Storm restoration regulatory asset				(44)
Other assets	**(7)**		(5)	60
Other liabilities	**(1)**		(14)	(60)
Net cash provided by (used in) operating activities	**321**	(8)	189	309
Cash Flows from Investing Activities				
Expenditures for property, plant and equipment	**(192)**	(65)	(155)	(186)
Proceeds from the sale of assets to affiliate			48	
Proceeds from the sale of other investments	**163**			
Net (increase) decrease in restricted cash and cash equivalents	**(9)**	2		
Other investing activities				10
Net cash provided by (used in) investing activities	**(38)**	(63)	(107)	(176)
Cash Flows from Financing Activities				
Net increase (decrease) in notes payable with affiliates	**(12)**	(130)	(28)	(52)
Issuance of long-term debt with affiliate		485		
Retirement of long-term debt with affiliate		(485)		
Issuance of long-term debt		531		
Net increase (decrease) in short-term debt	**(163)**	163		
Repayment to E.ON AG affiliates		(485)		
Debt issuance and credit facility costs	**(2)**	(10)		
Payment of common stock dividends to parent	**(83)**		(55)	(80)
Net cash provided by (used in) financing activities	**(260)**	69	(83)	(132)
Net Increase (Decrease) in Cash and Cash Equivalents	**23**	(2)	(1)	1
Cash and Cash Equivalents at Beginning of Period	**2**	4	5	4
Cash and Cash Equivalents at End of Period	**$ 25**	$ 2	$ 4	$ 5
Supplemental Disclosures of Cash Flow Information				
Cash paid (received) during the period for:				
Interest - net of amount capitalized	**$ 40**	$ 11	$ 39	$ 36
Income taxes - net	**$ 20**	$ (8)	$ 60	$ 23

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

BALANCE SHEETS AT DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars, shares in thousands)

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	**$ 25**	$ 2
Short-term investments		163
Accounts receivable (less reserve: 2011, $2; 2010, $2)		
Customer	**62**	70
Other	**7**	13
Unbilled revenues	**65**	81
Accounts receivable from affiliates	**11**	30
Fuel, materials and supplies	**142**	162
Prepayments	**7**	7
Regulatory assets	**9**	13
Other intangibles		36
Other current assets	**6**	6
Total Current Assets	**334**	583
Property, Plant and Equipment		
Regulated utility plant	**2,956**	2,600
Less: accumulated depreciation - regulated utility plant	**116**	17
Regulated utility plant, net	**2,840**	2,583
Construction work in progress	**215**	385
Property, Plant and Equipment, net	**3,055**	2,968
Other Noncurrent Assets		
Regulatory assets	**403**	367
Goodwill	**389**	389
Other intangibles	**166**	181
Other noncurrent assets	**40**	31
Total Other Noncurrent Assets	**998**	968
Total Assets	**$ 4,387**	$ 4,519

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

BALANCE SHEETS AT DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars, shares in thousands)

	2011	2010
Liabilities and Equity		
Current Liabilities		
Short-term debt		$ 163
Notes payable with affiliates		12
Accounts payable	**$ 94**	100
Accounts payable to affiliates	**26**	20
Customer deposits	**22**	23
Taxes	**13**	10
Regulatory liabilities	**10**	51
Salaries and benefits payable	**13**	17
Other current liabilities	**21**	21
Total Current Liabilities	**199**	417
Long-term Debt	**1,112**	1,112
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**475**	419
Investment tax credits	**43**	46
Accrued pension obligations	**95**	126
Asset retirement obligations	**55**	49
Regulatory liabilities	**478**	483
Price risk management liabilities	**55**	32
Other deferred credits and noncurrent liabilities	**113**	114
Total Deferred Credits and Other Noncurrent Liabilities	**1,314**	1,269
Commitments and Contingent Liabilities (Notes 6 and 15)		
Stockholder's Equity		
Common stock - no par value (a)	**424**	424
Additional paid-in capital	**1,278**	1,278
Earnings reinvested	**60**	19
Total Equity	**1,762**	1,721
Total Liabilities and Equity	**$ 4,387**	$ 4,519

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at December 31, 2011 and December 31, 2010.

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

STATEMENTS OF EQUITY
Louisville Gas and Electric Company
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
December 31, 2008 - Predecessor (b)	21,294	$ 424	$ 84	$ 740	$ (14)	$ 1,234
Net income				95		95
Cash dividends declared on common stock				(80)		(80)
Other comprehensive income (loss)					4	4
December 31, 2009 - Predecessor (b)	21,294	$ 424	$ 84	$ 755	$ (10)	$ 1,253
Net income				$ 109		$ 109
Cash dividends declared on common stock				(55)		(55)
Other comprehensive income (loss)					$ 10	10
October 31, 2010 - Predecessor	21,294	$ 424	$ 84	$ 809	$	$ 1,317
Effect of PPL acquisition			$ 1,194	$ (809)		$ 385
Net income				19		19
December 31, 2010 - Successor	21,294	$ 424	$ 1,278	$ 19		$ 1,721
Net income				$ 124		$ 124
Cash dividends declared on common stock				(83)		(83)
December 31, 2011 - Successor	21,294	$ 424	$ 1,278	$ 60		$ 1,762

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.
(b) See "General - Comprehensive Income" in Note 1 for disclosure of balances of each component of AOCI.

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

STATEMENTS OF INCOME
Kentucky Utilities Company
(Millions of Dollars)

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Operating Revenues				
Retail and wholesale	**$ 1,512**	$ 261	$ 1,235	$ 1,334
Electric revenue from affiliate	**36**	2	13	21
Total Operating Revenues	**1,548**	263	1,248	1,355
Operating Expenses				
Operation				
Fuel	**516**	78	417	434
Energy purchases	**29**	7	68	98
Energy purchases from affiliate	**83**	21	79	101
Other operation and maintenance	**362**	65	271	306
Depreciation	**186**	26	119	133
Taxes, other than income	**19**	1	9	14
Total Operating Expenses	**1,195**	198	963	1,086
Operating Income	**353**	65	285	269
Other Income (Expense) - net	**(1)**		1	6
Interest Expense	**70**	8	6	6
Interest Expense with Affiliate		2	62	69
Income Before Income Taxes	**282**	55	218	200
Income Taxes	**104**	20	78	67
Net Income	**$ 178**	$ 35	$ 140	$ 133

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

STATEMENTS OF COMPREHENSIVE INCOME
Kentucky Utilities Company
(Millions of Dollars)

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Net income	**$ 178**	$ 35	$ 140	$ 133
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Equity investees' other comprehensive income (loss), net of tax of $0, $0, $1, and $0			(2)	
Total other comprehensive income (loss)			(2)	
Comprehensive income	**$ 178**	$ 35	$ 138	$ 133

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

STATEMENTS OF CASH FLOWS
Kentucky Utilities Company
(Millions of Dollars)

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Cash Flows from Operating Activities				
Net income	**$ 178**	$ 35	$ 140	$ 133
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	**186**	26	119	133
Defined benefit plans - expense	**14**	3	13	26
Deferred income taxes and investment tax credits	**108**	4	23	74
Other	**3**	14	(3)	
Change in current assets and current liabilities				
Accounts receivable	**22**	(12)	13	11
Accounts payable	**2**	9	(17)	(32)
Accounts payable to affiliates	**(12)**	(41)	46	29
Unbilled revenues	**8**	(32)	19	(15)
Fuel, materials and supplies	**(4)**	5	(6)	(28)
Other	**(16)**	21	10	2
Other operating activities				
Defined benefit plans - funding	**(50)**	(2)	(18)	(20)
Storm restoration regulatory asset				(57)
Other assets	**(1)**		15	(22)
Other liabilities		(1)	(10)	19
Net cash provided by operating activities	**438**	29	344	253
Cash Flows from Investing Activities				
Expenditures for property, plant and equipment	**(273)**	(88)	(292)	(516)
Purchases of assets from affiliate			(48)	
Net (increase) decrease in restricted cash and cash equivalents				9
Net cash provided by (used in) investing activities	**(273)**	(88)	(340)	(507)
Cash Flows from Financing Activities				
Issuance of short-term debt with affiliate		33		
Retirement of short-term debt with affiliate		(33)		
Net increase (decrease) in notes payable with affiliates	**(10)**	(83)	48	29
Issuance of long-term debt with affiliate		1,298		150
Retirement of long-term debt with affiliate		(1,298)		
Issuance of long-term debt		1,489		
Repayment to E.ON AG affiliates		(1,331)		
Debt issuance and credit facility costs	**(3)**	(17)		
Payment of common stock dividends to parent	**(124)**		(50)	
Contributions from parent				75
Net cash provided by (used in) financing activities	**(137)**	58	(2)	254
Net Increase (Decrease) in Cash and Cash Equivalents	**28**	(1)	2	
Cash and Cash Equivalents at Beginning of Period	**3**	4	2	2
Cash and Cash Equivalents at End of Period	**$ 31**	$ 3	$ 4	$ 2
Supplemental Disclosures of Cash Flow Information				
Cash paid (received) during the period for:				
Interest - net of amount capitalized	**$ 60**	$ 22	$ 62	$ 70
Income taxes - net	**$ 16**	$ (12)	$ 74	$ (9)

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

BALANCE SHEETS AT DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars, shares in thousands)

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	**$ 31**	$ 3
Accounts receivable (less reserve: 2011, $2; 2010, $6)		
Customer	**73**	90
Other	**5**	20
Unbilled revenues	**81**	89
Accounts receivable from affiliates		12
Fuel, materials and supplies	**141**	136
Prepayments	**7**	8
Regulatory assets		9
Other intangibles	**1**	22
Other current assets	**12**	7
Total Current Assets	**351**	396
Investments	**31**	30
Property, Plant and Equipment		
Regulated utility plant	**4,563**	3,630
Less: accumulated depreciation - regulated utility plant	**161**	14
Regulated utility plant, net	**4,402**	3,616
Construction work in progress	**340**	955
Property, Plant and Equipment, net	**4,742**	4,571
Other Noncurrent Assets		
Regulatory assets	**217**	221
Goodwill	**607**	607
Other intangibles	**148**	175
Other noncurrent assets	**60**	58
Total Other Noncurrent Assets	**1,032**	1,061
Total Assets	**$ 6,156**	$ 6,058

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

BALANCE SHEETS AT DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars, shares in thousands)

	2011	2010
Liabilities and Equity		
Current Liabilities		
Notes payable with affiliates		$ 10
Accounts payable	**$ 112**	67
Accounts payable to affiliates	**33**	45
Customer deposits	**23**	23
Taxes	**11**	25
Regulatory liabilities	**10**	40
Interest payable	**11**	8
Salaries and benefits payable	**14**	15
Other current liabilities	**14**	18
Total Current Liabilities	**228**	251
Long-term Debt	**1,842**	1,841
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**484**	376
Investment tax credits	**101**	104
Accrued pension obligations	**83**	113
Asset retirement obligations	**61**	54
Regulatory liabilities	**525**	534
Other deferred credits and noncurrent liabilities	**87**	94
Total Deferred Credits and Other Noncurrent Liabilities	**1,341**	1,275
Commitments and Contingent Liabilities (Notes 6 and 15)		
Stockholder's Equity		
Common stock - no par value (a)	**308**	308
Additional paid-in capital	**2,348**	2,348
Earnings reinvested	**89**	35
Total Equity	**2,745**	2,691
Total Liabilities and Equity	**$ 6,156**	$ 6,058

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at December 31, 2011 and December 31, 2010.

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

STATEMENTS OF EQUITY
Kentucky Utilities Company
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
December 31, 2008 - Predecessor	37,818	$ 308	$ 241	$ 1,195		$ 1,744
Net income				133		133
Capital contributions from LKE			75			75
December 31, 2009 - Predecessor	37,818	$ 308	$ 316	$ 1,328		$ 1,952
Net income				$ 140		$ 140
Cash dividends declared on common stock				(50)		(50)
Other comprehensive income (loss)					$ (2)	(2)
October 31, 2010 - Predecessor (b)	37,818	$ 308	$ 316	$ 1,418	$ (2)	$ 2,040
Effect of PPL acquisition			$ 2,032	$ (1,418)	$ 2	$ 616
Net income				35		35
December 31, 2010 - Successor	37,818	$ 308	$ 2,348	$ 35	$	$ 2,691
Net income				$ 178		$ 178
Cash dividends declared on common stock				(124)		(124)
December 31, 2011 - Successor	37,818	$ 308	$ 2,348	$ 89		$ 2,745

(a) Shares in thousands. All common shares of KU stock are owned by LKE.
(b) See "General - Comprehensive Income" in Note 1 for disclosure of balances of each component of AOCI.

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

COMBINED NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

General

Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

Business and Consolidation

(PPL)

PPL is an energy and utility holding company that, through its subsidiaries, is primarily engaged in: 1) the regulated generation, transmission, distribution and sale of electricity and the regulated distribution and sale of natural gas, primarily in Kentucky; 2) the regulated distribution of electricity in the U.K.; 3) the regulated transmission, distribution and sale of electricity in Pennsylvania; and 4) the competitive generation and marketing of electricity in portions of the northeastern and northwestern U.S. Headquartered in Allentown, PA, PPL's principal subsidiaries are LKE (including its principal subsidiaries, LG&E and KU), PPL Global, PPL Electric and PPL Energy Supply (including its principal subsidiaries, PPL EnergyPlus and PPL Generation).

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently referred to as WPD Midlands), from subsidiaries of E.ON AG. As PPL is consolidating WPD Midlands on a one-month lag, eight months of WPD Midlands' operating results are included in PPL's results of operations for 2011 with no comparable amounts for 2010.

On November 1, 2010, PPL acquired all of the limited liability company interests of E.ON U.S. LLC from a wholly owned subsidiary of E.ON AG. Upon completion of the acquisition, E.ON U.S. LLC was renamed LG&E and KU Energy LLC. LKE's operating results are included in PPL's results of operations for the full year of 2011, while 2010 includes LKE's operating results for the two months ended December 31, 2010.

See Note 10 for additional information regarding the acquisitions of WPD Midlands and LKE.

(PPL, LKE, LG&E and KU)

LKE is a holding company with cost-based rate-regulated utility operations through its subsidiaries, LG&E and KU, and is subject to PUHCA. LG&E and KU are engaged in the regulated generation, transmission, distribution and sale of electricity. LG&E also engages in the regulated distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name and it serves customers in Tennessee under the KU name.

(LKE, LG&E and KU)

The financial statements and accompanying footnotes of LKE, LG&E and KU have been segregated to present pre-acquisition activity as the "Predecessor" and post-acquisition activity as the "Successor." Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives in the Successor financial statements to conform to PPL's accounting policies. The cost basis of certain assets and liabilities were changed as of November 1, 2010 as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor period are not comparable to the Predecessor period. "Earnings reinvested" on the Balance Sheets of LG&E and KU were reset to $0 as of November 1, 2010 and only reflect earnings and dividend activity since that date. See Note 7 for information about an application filed with the FERC regarding future dividend payments related to this push-down accounting impact.

(PPL and PPL Energy Supply)

PPL Generation owns and operates a portfolio of competitive domestic power generating assets. These power plants are located in Pennsylvania and Montana and use well-diversified fuel sources including coal, uranium, natural gas, oil and water. PPL EnergyPlus sells electricity produced by PPL Generation subsidiaries, participates in wholesale market load-following auctions, and markets various energy products and commodities such as: capacity, transmission, FTRs, coal, natural gas, oil, uranium, emission allowances, RECs and other commodities in competitive wholesale and competitive retail markets, primarily in the northeastern and northwestern U.S.

(PPL Energy Supply)

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global, representing 100% of the outstanding membership interest of PPL Global, to PPL Energy Supply's parent, PPL Energy Funding. The distribution was made based on the book value of the assets and liabilities of PPL Global with financial effect as of January 1, 2011. See Note 9 for additional information.

(PPL, PPL Energy Supply and LKE)

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income includes the activities of various businesses that were sold or distributed. See Note 9 for additional information. The Statements of Cash Flows do not separately report the cash flows of the Discontinued Operations, except for the LKE Predecessor period, which separately discloses these cash flows within operating, investing and financing activities, consistent with LKE's pre-acquisition accounting policy.

(PPL and PPL Electric)

PPL Electric is a cost-based rate-regulated subsidiary of PPL. PPL Electric's principal business is the regulated transmission and distribution of electricity to serve retail customers in its franchised territory in eastern and central Pennsylvania and the regulated supply of electricity to retail customers in that territory as a PLR.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The financial statements of the Registrants include each company's own accounts as well as the accounts of all entities in which the company has a controlling financial interest. Entities for which a controlling financial interest is not demonstrated through voting interests are evaluated based on accounting guidance for VIEs. The Registrants consolidate a VIE when they are determined to have a controlling interest in the VIE, and thus are the primary beneficiary of the entity. For PPL and PPL Energy Supply, see Note 22 for information regarding a consolidated VIE. Investments in entities in which a company has the ability to exercise significant influence but does not have a controlling financial interest are accounted for under the equity method. All other investments are carried at cost or fair value. All significant intercompany transactions have been eliminated. Any noncontrolling interests are reflected in the financial statements.

The financial statements of PPL, PPL Energy Supply, LKE, LG&E and KU include their share of any undivided interests in jointly owned facilities, as well as their share of the related operating costs of those facilities. See Note 14 for additional information.

(PPL)

PPL consolidates WPD, including WPD Midlands, on a one-month lag. Material intervening events, such as debt issuances that occur in the lag period, are recognized in the current period financial statements. Events that are significant but not material are disclosed.

Regulation

(PPL, PPL Electric, LKE, LG&E and KU)

PPL Electric, LG&E and KU are cost-based rate-regulated utilities for which rates are set by regulators to enable PPL Electric, LG&E and KU to recover the costs of providing electric or gas service, as applicable, and to provide a reasonable return to shareholders. Rates are generally established based on a historical test period adjusted to exclude unusual or nonrecurring items. As a result, the financial statements are subject to the accounting for certain types of regulation as prescribed by GAAP and reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery of underlying costs is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise currently be charged to expense. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC or the applicable state regulatory commissions. See Note 6 for additional details regarding regulatory matters.

(PPL)

WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. Electricity distribution revenues are set every five years through price controls that are not directly based on cost recovery. The price control formula that governs WPD's allowed revenue is designed to provide economic incentives to minimize operating, capital and financing costs. Ofgem completed a review in December 2009 and set distribution revenues that became effective April 1, 2010 and will continue through March 31, 2015.

Accounting Records *(PPL, PPL Electric, LKE, LG&E and KU)*

The system of accounts is maintained in accordance with the Uniform System of Accounts prescribed by the FERC and adopted by the applicable state regulatory commissions.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Loss Accruals

Potential losses are accrued when (1) information is available that indicates it is "probable" that a loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The Registrants continuously assess potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events. Loss accruals for environmental remediation are discounted when appropriate.

The accrual of contingencies that might result in gains is not recorded, unless recovery is assured.

Changes in Classification

The classification of certain amounts in the 2010 and 2009 financial statements have been changed to conform to the current presentation. The changes in classification did not affect the Registrants' net income or equity.

Comprehensive Income *(PPL, PPL Energy Supply, LKE, LG&E and KU)*

Comprehensive income, which includes net income and OCI, consists of changes in equity from transactions not related to shareowners. Comprehensive income is shown on the Statements of Comprehensive Income.

AOCI, which is presented on the Balance Sheets of PPL and included in Member's Equity on the Balance Sheets of PPL Energy Supply and LKE, consisted of the following after-tax gains (losses).

	Foreign currency translation adjustments	Unrealized gains (losses) Available-for-sale securities	Unrealized gains (losses) Qualifying derivatives	Equity investees' AOCI	Defined benefit plans Prior service costs	Defined benefit plans Actuarial gain (loss)	Defined benefit plans Transition asset (obligation)	Total
PPL								
December 31, 2008	$ (237)	$ 18	$ (21)	$ (3)	$ (75)	$ (657)	$ (10)	$ (985)
OCI	101	45	623	1	14	(336)	1	449
Cumulative effect adjustment (a)		(1)						(1)
December 31, 2009	$ (136)	$ 62	$ 602	$ (2)	$ (61)	$ (993)	$ (9)	$ (537)
OCI	(59)	24	93		29	(39)	10	58
December 31, 2010	$ (195)	$ 86	$ 695	$ (2)	$ (32)	$ (1,032)	$ 1	$ (479)
OCI	(48)	2	(168)	3	7	(105)		(309)
December 31, 2011	$ (243)	$ 88	$ 527	$ 1	$ (25)	$ (1,137)	$ 1	$ (788)
PPL Energy Supply								
December 31, 2008	$ (237)	$ 18	$ (12)	$ (3)	$ (54)	$ (608)	$ (8)	$ (904)
OCI	101	45	585	1	10	(322)	1	421
Cumulative effect adjustment (a)		(1)						(1)
December 31, 2009	$ (136)	$ 62	$ 573	$ (2)	$ (44)	$ (930)	$ (7)	$ (484)
OCI	(59)	24	159		21	(23)	7	129
December 31, 2010	$ (195)	$ 86	$ 732	$ (2)	$ (23)	$ (953)	$	$ (355)
OCI		2	(86)	3	2	(18)		(97)
Distribution of membership interest in PPL Global (b)	195		(41)		5	780		939
December 31, 2011	$	$ 88	$ 605	$ 1	$ (16)	$ (191)		$ 487

(a) Recorded in connection with the adoption of accounting guidance related to the recognition and presentation of other-than-temporary impairments.
(b) See Note 9 for additional information.

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans Prior service costs	Defined benefit plans Actuarial gain (loss)	Total
LKE						
December 31, 2008 - Predecessor	$ 14	$ (9)		$ (16)	$ (50)	$ (61)
OCI	(3)	3		4	14	18
December 31, 2009 - Predecessor	$ 11	$ (6)		$ (12)	$ (36)	$ (43)
Disposal of discontinued operations	(11)					(11)
OCI		10	$ (2)	1	(19)	(10)
October 31, 2010 - Predecessor		$ 4	$ (2)	$ (11)	$ (55)	$ (64)
Effect of PPL acquisition		(4)	2	11	55	64
OCI					6	6
December 31, 2010 - Successor		$	$	$	$ 6	$ 6
OCI				(2)		(2)
December 31, 2011 - Successor				$ (2)	$ 6	$ 4

LG&E had AOCI balances of $(14) million and $(10) million at December 31, 2008 and 2009 (Predecessor periods). Changes between periods were due to $4 million of after-tax gains on qualifying derivatives. During the ten months ended October 31, 2010 (a Predecessor period), LG&E had $10 million of after-tax gains on qualifying derivatives. There were no AOCI balances at December 31, 2010 and 2011 (Successor periods).

KU had no AOCI balances at December 31, 2008 or 2009 (Predecessor periods), or at December 31, 2010 or 2011 (Successor periods). KU had $2 million of after-tax losses related to equity investees' AOCI during the ten months ended October 31, 2010 (a Predecessor period) which were eliminated with the effect of the PPL acquisition.

Earnings Per Share *(PPL)*

EPS is computed using the two-class method, which is an earnings allocation method for computing EPS that treats a participating security as having rights to earnings that would otherwise have been available to common shareowners. Share-

based payment awards that provide recipients a non-forfeitable right to dividends or dividend equivalents are considered participating securities.

Price Risk Management

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Energy and energy-related contracts are used to hedge the variability of expected cash flows associated with the generating units and marketing activities, as well as for trading purposes. Interest rate contracts are used to hedge exposures to changes in the fair value of debt instruments and to hedge exposures to variability in expected cash flows associated with existing debt instruments or forecasted issuances of debt. Foreign currency exchange contracts are used to hedge foreign currency exposures related to firm commitments, recognized assets or liabilities, forecasted transactions, net investments and foreign earnings translation. Similar derivatives may receive different accounting treatment, depending on management's intended use and documentation.

Certain energy and energy-related contracts meet the definition of a derivative, while others do not meet the definition of a derivative because they lack a notional amount or a net settlement provision. In cases where there is no net settlement provision, contracts are periodically reviewed to assess whether a market mechanism has evolved which could facilitate net settlement. Certain derivative energy contracts have been excluded from the requirements of derivative accounting treatment because they meet the definition of NPNS. These contracts are accounted for using accrual accounting. All other contracts that have been classified as derivative contracts are reflected on the balance sheet at their fair value. These contracts are recorded as "Price risk management assets" and "Price risk management liabilities" on the Balance Sheets. Derivative positions that deliver within a year are included in "Current Assets" and "Current Liabilities," while derivative positions that deliver beyond a year are recorded in "Other Noncurrent Assets" and "Deferred Credits and Other Noncurrent Liabilities."

Energy and energy-related trades are assigned a strategy and accounting classification. Processes exist that allow for subsequent review and validation of the trade information. These strategies are discussed in more detail in Note 19. The accounting department provides the traders and the risk management department with guidelines on appropriate accounting classifications for various trade types and strategies. Some examples of these guidelines include, but are not limited to:

- Physical coal, limestone, lime, uranium, electric transmission, gas transportation, gas storage and renewable energy credit contracts are not derivatives due to the lack of net settlement provisions.

- Only contracts where physical delivery is deemed probable throughout the entire term of the contract can qualify for the NPNS exception.

- Physical transactions that permit cash settlement and financial transactions do not qualify for NPNS because physical delivery cannot be asserted; however, these transactions can receive cash flow hedge treatment if they lock in the future cash flows for energy-related commodities.

- Certain purchased option contracts or net purchased option collars may receive hedge accounting treatment. Those that are not eligible are marked to fair value through earnings.

- Derivative transactions that do not qualify for NPNS or hedge accounting treatment are marked to fair value through earnings.

A similar process is also followed by the treasury department as it relates to interest rate and foreign currency derivatives. Examples of accounting guidelines provided to the treasury department staff include, but are not limited to:

- Transactions to lock in an interest rate prior to a debt issuance can be designated as cash flow hedges.

- Cross-currency transactions to hedge interest and principal repayments can be designated as cash flow hedges.

- Transactions entered into to hedge fluctuations in the fair value of existing debt can be designated as fair value hedges.

- Transactions entered into to hedge the value of a net investment of foreign operations can be designated as net investment hedges.

- Derivative transactions that do not qualify for hedge accounting treatment are marked to fair value through earnings. These transactions generally include hedges of earnings translation risk associated with subsidiaries that report their financial statements in a currency other than the U.S. dollar. As such, these transactions reduce earnings volatility due solely to changes in foreign currency exchange rates.

- Derivative transactions may be marked to fair value through regulatory assets/liabilities if approved by the appropriate regulatory body. These transactions generally include the effect of interest rate swaps that are included in customer rates.

Changes in the fair value of derivatives are recorded in either OCI or in current-period earnings.

Cash inflows and outflows related to derivative instruments are included as a component of operating, investing or financing activities on the Statements of Cash Flows, depending on the underlying nature of the hedged items.

PPL and its subsidiaries have elected not to offset net derivative positions against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL Energy Supply reflects its net realized and unrealized gains and losses associated with all derivatives that are held for trading purposes in "Net energy trading margins" on the Statements of Income.

See Notes 18 and 19 for additional information on derivatives.

(PPL and PPL Electric)

To meet its obligation as a PLR to its customers, PPL Electric has entered into certain contracts that meet the definition of a derivative. However, these contracts qualify for NPNS. See Notes 18 and 19 for additional information.

Revenue

Utility Revenue *(PPL)*

The Statements of Income "Utility" line item contains rate-regulated revenue from the following:

	2011	2010	2009
Domestic electric and gas revenue (a)	$ 4,674	$ 2,941	$ 3,218
U.K. electric revenue (b)	1,618	727	684
Total	$ 6,292	$ 3,668	$ 3,902

(a) Represents revenue from regulated generation, transmission and/or distribution in Pennsylvania, Kentucky, Virginia and Tennessee, including regulated wholesale revenue.
(b) Represents electric revenue from the operation of WPD's distribution networks. 2011 includes eight months of revenue for WPD Midlands, which are recorded on a one-month lag.

Revenue Recognition

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Operating revenues, except for "Energy-related businesses," are recorded based on energy deliveries through the end of the calendar month. Unbilled retail revenues result because customers' meters are read and bills are rendered throughout the month, rather than all being read at the end of the month. Unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh by the estimated average cents per kWh. Unbilled wholesale energy revenues are recorded at month-end to reflect estimated amounts until actual dollars and MWhs are confirmed and invoiced. At that time, unbilled revenue is reversed and actual revenue is recorded.

Certain PPL subsidiaries participate primarily in the PJM RTO, as well as in other RTOs and ISOs. In PJM, PPL EnergyPlus is a marketer, a load-serving entity to its customers who have selected it as a supplier and a seller for PPL Energy Supply's generation subsidiaries. A function of interchange accounting is to match participants' MWh entitlements (generation plus scheduled bilateral purchases) against their MWh obligations (load plus scheduled bilateral sales) during every hour of every day. If the net result during any given hour is an entitlement, the participant is credited with a spot-market sale to the RTO at the respective market price for that hour; if the net result is an obligation, the participant is charged with a spot-market purchase at the respective market price for that hour. RTO purchases and sales are not allocated to individual customers. PPL Energy Supply records the hourly net sales in its Statements of Income as "Wholesale energy marketing" if in a net sales position and "Energy purchases" if in a net purchase position.

(PPL)

WPD's revenue is primarily from charges to suppliers to use its distribution system to deliver electricity to the end-user. WPD's allowed revenue is not dependent on volume delivered over the five-year price control period. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the allowed revenue for a given period. Any under recovery would be recovered in the next regulatory year, but would not be recorded as a receivable in the current period. Any over recovery would be reflected in the current period as a liability and would not be included in revenue.

(PPL and PPL Energy Supply)

PPL Energy Supply records energy marketing activity in the period when the energy is delivered. Generally, sales that qualify as derivative instruments held for non-trading purposes are reported gross on the Statements of Income within "Wholesale energy marketing" and "Unregulated retail electric and gas." However, non-trading physical sales and purchases of electricity at major market delivery points (which is any delivery point with liquid pricing available, such as the pricing hub for PJM West), are netted and reported in the Statements of Income within "Wholesale energy marketing" or "Energy Purchases," depending on the original intent. Additionally, the bilateral sales and purchases that are designated as speculative trading activities and qualify as derivative instruments for accounting purposes are reported net on the Statements of Income within "Net energy trading margins." Spot market activity that balances PPL Energy Supply's physical trading positions is included on the Statements of Income in "Net energy trading margins."

"Energy-related businesses" revenue primarily includes revenue from the mechanical contracting and engineering subsidiaries. The mechanical contracting and engineering subsidiaries record revenue from construction contracts on the percentage-of-completion method of accounting, measured by the actual cost incurred to date as a percentage of the estimated total cost for each contract. Accordingly, costs and estimated earnings in excess of billings on uncompleted contracts are recorded within "Unbilled revenues" on the Balance Sheets, and billings in excess of costs and estimated earnings on uncompleted contracts are recorded within "Other current liabilities" on the Balance Sheets. The amount of costs and estimated earnings in excess of billings was $15 million and $9 million at December 31, 2011 and 2010, and the amount of billings in excess of costs and estimated earnings was $67 million and $70 million at December 31, 2011 and 2010.

Accounts Receivable

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Accounts receivable are reported on the Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. See Note 10 for information related to the acquisitions of WPD Midlands and LKE.

(PPL, PPL Energy Supply and PPL Electric)

PPL Electric's customers may choose an alternative supplier for their generation supply. In accordance with a PUC-approved purchase of accounts receivable program, beginning in the first quarter of 2010, PPL Electric has purchased certain accounts receivable from alternative suppliers at a nominal discount, which reflects a provision for uncollectible accounts. The alternative suppliers (including PPL EnergyPlus) have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. PPL Electric receives a nominal fee for administering its program. During 2011 and 2010, PPL Electric purchased $872 million and $617 million of accounts receivable from unaffiliated third parties. During 2011 and 2010, PPL Electric purchased $267 million and $215 million of accounts receivable from its affiliate, PPL EnergyPlus.

Allowance for Doubtful Accounts *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

Accounts receivable collectability is evaluated using a combination of factors, including past due status based on contractual terms, trends in write-offs, the age of the receivable, counterparty creditworthiness and economic conditions. Specific events, such as bankruptcies, are also considered. Adjustments to the allowance for doubtful accounts are made when necessary based on the results of analysis, the aging of receivables, and historical and industry trends.

Accounts receivable are written off in the period in which the receivable is deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when it is known they will be received.

The changes in the allowance for doubtful accounts were:

	Balance at Beginning of Period	Additions: Charged to Income	Additions: Charged to Other Accounts	Deductions (a)	Balance at End of Period
PPL					
2011	$ 55	$ 65 (c)		$ 66 (d)	$ 54
2010	37	42 (b)	$ 7 (b) (e)	31	55 (b)
2009	40	30		33	37
PPL Energy Supply					
2011	$ 20	$ 14 (c)		$ 19 (d)	$ 15
2010	21	1		2	20
2009	26	1		6	21
PPL Electric					
2011	$ 17	$ 33		$ 33	$ 17
2010	16	30		29	17
2009	14	29		27	16
LKE					
2011 - Successor	$ 17	$ 15		$ 15	$ 17
2010 - Successor		10	$ 7 (e)		17
2010 - Predecessor	4	10		10	4
2009 - Predecessor	4	9		9	4
LG&E					
2011 - Successor	$ 2	$ 5		$ 5	$ 2
2010 - Successor		1	$ 2 (e)	1	2
2010 - Predecessor	2	4		4	2
2009 - Predecessor	2	4		4	2
KU					
2011 - Successor	$ 6	$ 6		$ 10	$ 2
2010 - Successor		1	$ 6 (e)	1	6
2010 - Predecessor	3	6		6	3
2009 - Predecessor	3	4		4	3

(a) Primarily related to uncollectible accounts written off.
(b) Includes amounts associated with LKE activity since the November 1, 2010 acquisition date. See Note 10 for additional information related to the acquisition of LKE.
(c) Includes amounts related to the SMGT bankruptcy. See Note 15 for additional information.
(d) Includes amounts related to the June 2011, FERC approved settlement agreement between PPL and California ISO related to the sales made to the California ISO during the period October 2000 through June 2001 that were not paid to PPL subsidiaries. Therefore, the receivable and the related allowance for doubtful accounts were reversed and the settlement recorded.
(e) Primarily related to capital projects, thus the provision was recorded as an adjustment to construction work in progress.

Cash *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E, and KU)*

Cash Equivalents

All highly liquid debt instruments purchased with original maturities of three months or less are considered to be cash equivalents.

Restricted Cash and Cash Equivalents

Bank deposits and other cash equivalents that are restricted by agreement or that have been clearly designated for a specific purpose are classified as restricted cash and cash equivalents. The change in restricted cash and cash equivalents is reported as an investing activity on the Statements of Cash Flows. On the Balance Sheets, the current portion of restricted cash and cash equivalents is shown as "Restricted cash and cash equivalents" for PPL and PPL Energy Supply and included in "Other current assets" for PPL Electric, LKE, LG&E and KU while the noncurrent portion is included in "Other noncurrent assets" for all Registrants. At December 31, the balances of restricted cash and cash equivalents included the following.

	PPL		PPL Energy Supply		PPL Electric		LKE		LG&E	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Margin deposits posted to counterparties (a)	$ 137	$ 14	$ 137	$ 11				$ 3		$ 3
Cash collateral posted to counterparties (b)	29	19					$ 29	19	$ 29	19
Low carbon network fund (c)	9									
Captive insurance reserves (d)	6	6		6						
Funds deposited with a trustee (e)	12	13			$ 12	$ 13				
Other	16	14	8	9	1	1		1		
Total	$ 209	$ 66	$ 145	$ 26	$ 13	$ 14	$ 29	$ 23	$ 29	$ 22

(a) Deposits posted to counterparties associated with trading activities.
(b) Cash collateral posted to counterparties related to interest rate swap contracts.
(c) Funds received by WPD, which are to be spent on approved initiatives to support a low carbon environment.
(d) Funds required by law to be held by WPD's captive insurance company to meet claims.
(e) Funds deposited with a trustee to defease PPL Electric's 1945 First Mortgage Bonds. See Note 7 for additional information.

Fair Value Measurements *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

The Registrants value certain financial and nonfinancial assets and liabilities at fair value. Generally, the most significant fair value measurements relate to price risk management assets and liabilities, investments in securities including investments in the NDT funds and defined benefit plans, and cash and cash equivalents. PPL and its subsidiaries use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

The Registrants classify fair value measurements within one of three levels in the fair value hierarchy. The level assigned to a fair value measurement is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are as follows:

- **Level 1** - quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

- **Level 2** - inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for substantially the full term of the asset or liability.

- **Level 3** - unobservable inputs that management believes are predicated on the assumptions market participants would use to measure the asset or liability at fair value.

Assessing the significance of a particular input requires judgment that considers factors specific to the asset or liability. As such, the Registrants' assessment of the significance of a particular input may affect how the assets and liabilities are classified within the fair value hierarchy.

Investments

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Generally, the original maturity date of an investment and management's intent and ability to sell an investment prior to its original maturity determine the classification of investments as either short-term or long-term. Investments that would otherwise be classified as short-term, but are restricted as to withdrawal or use for other than current operations or are clearly designated for expenditure in the acquisition or construction of noncurrent assets or for the liquidation of long-term debts, are classified as long-term.

<u>Short-term Investments</u>

Short-term investments generally include certain deposits as well as securities that are considered highly liquid or provide for periodic reset of interest rates. Investments with original maturities greater than three months and less than a year, as well as investments with original maturities of greater than a year that management has the ability and intent to sell within a year, are included in "Short-term investments" ("Other current assets" if not material) on the Balance Sheets.

Investments in Debt and Equity Securities

Investments in debt securities are classified as held-to-maturity and measured at amortized cost when there is an intent and ability to hold the securities to maturity. Debt and equity securities held principally to capitalize on fluctuations in their value with the intention of selling them in the near-term are classified as trading. All other investments in debt and equity securities are classified as available-for-sale. Both trading and available-for-sale securities are carried at fair value. The specific identification method is used to calculate realized gains and losses on debt and equity securities. Any unrealized gains and losses on trading securities are included in earnings. Through March 31, 2009, unrealized gains and losses on all available-for-sale securities were reported, net of tax, in OCI or recognized in earnings when the decline in fair value below amortized cost was determined to be an other-than-temporary impairment.

Accounting guidance effective April 1, 2009 modified the criteria for determining whether a decline in fair value of a debt security is other than temporary and whether the other-than-temporary impairment is recognized in earnings or reported in OCI. Beginning April 1, 2009, when a debt security is in an unrealized loss position and:

- there is an intent or a requirement to sell the security before recovery, the other-than-temporary impairment is recognized currently in earnings; or
- there is no intent or requirement to sell the security before recovery, the portion of the other-than-temporary impairment that is considered a credit loss is recognized currently in earnings and the remainder of the other-than-temporary impairment is reported in OCI, net of tax; or
- there is no intent or requirement to sell the security before recovery and there is no credit loss, the unrealized loss is reported in OCI, net of tax.

Equity securities were not impacted by this accounting guidance; therefore, unrealized gains and losses on available-for-sale equity securities continue to be reported, net of tax, in OCI. Earnings continue to be charged when an equity security's decline in fair value below amortized cost is determined to be an other-than-temporary impairment. See Notes 18 and 23 for additional information on investments in debt and equity securities.

Equity Method Investment *(LKE and KU)*

KU's investment in EEI is included in "Investments" on the Balance Sheets. KU owns 20% of the common stock of EEI. Through a power marketer affiliated with its majority owner, EEI sells its output to third parties. KU's investment in EEI is accounted for under the equity method of accounting and amounted to $30 million at December 31, 2011 and 2010. As part of PPL's acquisition of LKE and its subsidiaries, the purchase accounting adjustment to reflect the EEI investment at fair value was calculated using the discounted cash flow valuation method. The fair value of the investment in EEI was calculated to be $30 million. The fair value adjustment to the investment is being amortized over the expected remaining useful life of the plant and equipment at EEI, which is estimated to be over 20 years. KU's direct exposure to loss as a result of its involvement with EEI is generally limited to the value of its investment.

Cost Method Investment *(LKE, LG&E and KU)*

LG&E and KU each have an investment in OVEC, which is accounted for using the cost method. The investment is recorded in "Investments" on the LKE and KU Balance Sheets, in "Other noncurrent assets" on the LG&E Balance Sheets and in "Other investments" on the PPL Balance Sheets. LG&E and KU and ten other electric utilities are equity owners of OVEC, located in Piketon, Ohio. OVEC owns and operates two coal-fired plants, Kyger Creek Plant in Ohio and Clifty Creek Plant in Indiana, with combined nameplate generating capacities of 2,390 MW. OVEC's power is currently supplied to LG&E and KU and 11 other companies affiliated with the various owners. LG&E and KU own 5.63% and 2.5% of OVEC's common stock. Pursuant to a power purchase agreement, LG&E and KU are contractually entitled to their ownership percentage of OVEC's output, which is 134 MW for LG&E and 60 MW for KU.

LG&E and KU's combined investment in OVEC is not significant. The direct exposure to loss as a result of LG&E's and KU's involvement with OVEC is generally limited to the value of its investment; however, LG&E and KU may be conditionally responsible for a pro-rata share of certain OVEC obligations. As part of PPL's acquisition of LKE, the value of the power purchase contract was recorded as an intangible asset with the offset to a regulatory liability which are both being amortized using the units-of-production method until March 2026, the expiration date of the agreement at the date of the acquisition. See Notes 15 and 20 for additional discussion on the power purchase agreement.

Long-Lived and Intangible Assets

Property, Plant and Equipment

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PP&E is recorded at original cost, unless impaired. If impaired, the asset is written down to fair value at that time, which becomes the new cost basis of the asset. Original cost includes material, labor, contractor costs, certain overheads and financing costs, where applicable. The cost of repairs and minor replacements are charged to expense as incurred. The Registrants record costs associated with planned major maintenance projects in the period in which the costs are incurred. No costs are accrued in advance of the period in which the work is performed for PPL Energy Supply or PPL Electric. LG&E and KU accrue costs of removal net of estimated salvage value through depreciation, which is included in the calculation of customer rates over the assets' depreciable lives in accordance with regulatory practices. Cost of removal amounts accrued through depreciation rates are accumulated as a regulatory liability until the removal costs are incurred. See Note 6 for additional information.

(PPL)

The original cost for the PP&E acquired in the WPD Midlands acquisition is its fair value on April 1, 2011, which approximated RAV as of the acquisition date. See Note 10 for additional information on the acquisition.

(PPL, PPL Electric, LKE and KU)

AFUDC is capitalized as part of the construction costs for cost-based rate-regulated projects for which a return on such costs is recovered after the project is placed in service. The debt component of AFUDC is credited to "Interest Expense" and the equity component is credited to "Other Income (Expense) - net" on the Statements of Income. KU has not recorded significant AFUDC as a return has been provided during the construction period for most projects.

(PPL and PPL Energy Supply)

Nuclear fuel-related costs, including fuel, conversion, enrichment, fabrication and assemblies, are capitalized as PP&E. Such costs are amortized as the fuel is spent using the units-of-production method and included in "Fuel" on the Statements of Income.

PPL Energy Supply capitalizes interest costs as part of construction costs. The following capitalized interest was excluded from "Interest Expense" on the Statements of Income.

	PPL	PPL Energy Supply
2011	$ 51	$ 47
2010	30	33
2009	44	45

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Included in PP&E on the Balance Sheets are capitalized costs of software projects that were developed or obtained for internal use. These capitalized costs are amortized ratably over the expected lives of the projects when they become operational, generally not to exceed five years. Following are capitalized software costs and the accumulated amortization.

	December 31, 2011		December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
PPL	$ 290	$ 98	$ 213	$ 70
PPL Energy Supply	26	21	30	20
PPL Electric	61	27	54	24
LKE	101	17	84	2
LG&E	52	9	44	1
KU	49	8	40	1

Amortization expense of capitalized software costs was as follows:

	2011	2010	2009
PPL	$ 39	$ 21	$ 13
PPL Energy Supply	2	3	2
PPL Electric	12	9	5

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
LKE	$ 15	$ 2	$ 12	$ 14
LG&E	8	1	7	8
KU	7	1	6	6

The amortization of capitalized software is included in "Depreciation" on the Statements of Income.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Depreciation

Depreciation is recorded over the estimated useful lives of property using various methods including the straight-line, composite and group methods. When a component of PP&E that was depreciated under the composite or group method is retired, the original cost is charged to accumulated depreciation. When all or a significant portion of an operating unit that was depreciated under the composite or group method is retired or sold, the property and the related accumulated depreciation account is reduced and any gain or loss is included in income, unless otherwise required by regulators.

Following are the weighted-average rates of depreciation at December 31.

	2011					
	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Regulated utility plant (a)	3.03	(b)	2.49	4.54	5.11	4.17
Non-regulated PP&E - Generation	2.88	2.88				

	2010					
	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Regulated utility plant (a)	3.27	2.31	2.27	4.70	5.40	4.10
Non-regulated PP&E - Generation	2.76	2.76				

(a) For PPL, LKE, LG&E and KU, as a result of the acquisition of LKE, the original cost for PP&E is its fair value on November 1, 2010, which approximated net book value. This fair value adjustment resulted in lowering the original cost basis of LKE's, LG&E's and KU's PP&E, thus impacting the calculation of the weighted-average depreciation rate.
(b) As a result of PPL Energy Supply's distribution of its membership interest in PPL Global in January 2011, PPL Energy Supply no longer has any regulated utility plant.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price paid over the fair value of the identifiable net assets acquired in a business combination.

Other acquired intangible assets are initially measured based on their fair value. Intangibles that have finite useful lives are amortized over their useful lives based upon the pattern in which the economic benefits of the intangible assets are consumed or otherwise used. Costs incurred to renew or extend terms of licenses are capitalized as intangible assets.

When determining the useful life of an intangible asset, including intangible assets that are renewed or extended, PPL and its subsidiaries consider the expected use of the asset; the expected useful life of other assets to which the useful life of the intangible asset may relate; legal, regulatory, or contractual provisions that may limit the useful life; the company's historical experience as evidence of its ability to support renewal or extension; the effects of obsolescence, demand, competition, and other economic factors; and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

PPL and PPL Energy Supply account for RECs as intangible assets. PPL and PPL Energy Supply buy and/or sell RECs and also create RECs through owned renewable energy generation facilities. In any period, PPL and PPL Energy Supply can be a net purchaser or seller of RECs depending on their contractual obligations to purchase or deliver RECs and the production of RECs from their renewable energy generation facilities. The carrying value of RECs created from their renewable energy generation facilities is initially recorded at zero value and purchased RECs are initially recorded based on their purchase price. When RECs are consumed to satisfy an obligation to deliver RECs to meet a state's Renewable Portfolio Standard Obligation or when RECs are sold to third parties, they are removed from the Balance Sheet at their weighted-average carrying value. Since the economic benefits of RECs are not diminished until they are consumed, RECs are not amortized; rather, they are expensed when consumed or a gain or loss is recognized when sold. Such expense is included in "Energy purchases" on the Statements of Income. Gains and losses on the sale of RECs are included in "Other operation and maintenance" on the Statements of Income.

PPL, PPL Energy Supply, LKE, LG&E and KU account for emission allowances as intangible assets. PPL, PPL Energy Supply, LKE, LG&E and KU are allocated emission allowances by states based on their generation facilities' historical emissions experience, and have purchased emission allowances generally when it is expected that additional allowances will be needed. The carrying value of allocated emission allowances is initially recorded at zero value and purchased allowances are initially recorded based on their purchase price. LKE, LG&E, and KU emission allowances acquired in the LKE acquisition were recorded at fair value on the date of acquisition. See Note 10 for additional information on the acquisition. When consumed or sold, emission allowances are removed from the Balance Sheet at their weighted-average carrying value. Since the economic benefits of emission allowances are not diminished until they are consumed, emission allowances are not amortized; rather, they are expensed when consumed or a gain or loss is recognized when sold. Such expense is included in "Fuel" on the Statements of Income. Gains and losses on the sale of emission allowances are included in "Other operation and maintenance" on the Statements of Income.

Asset Impairment

The Registrants review long-lived assets that are subject to depreciation or amortization, including finite-lived intangibles, for impairment when events or circumstances indicate carrying amounts may not be recoverable. For example, certain emission allowances are expected to be sold rather than consumed. These emission allowances are tested for impairment when events or changes in circumstances, such as a decline in market prices, indicate that their carrying value may not be recoverable.

A long-lived asset classified as held and used is impaired when the carrying amount of the asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If impaired, the asset's carrying value is written down to its fair value.

A long-lived asset classified as held for sale is impaired when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If impaired, the asset's (disposal group's) carrying value is written down to its fair value less cost to sell. See Notes 9 and 18 for a discussion of impairment charges recorded associated with long-lived assets classified as held for sale.

Goodwill is reviewed for impairment at the reporting unit level annually or more frequently when events or circumstances indicate that the carrying amount of a reporting unit may be greater than the unit's fair value. Additionally, goodwill must be tested for impairment after a portion of goodwill has been allocated to a business to be disposed of. PPL's reporting units are at or one level below its operating segments and represent significant businesses with discrete financial information that is regularly reviewed by segment management. If the carrying amount of the reporting unit, including goodwill, exceeds its fair value, the implied fair value of goodwill must be calculated in the same manner as goodwill in a business combination. The fair value of a reporting unit is allocated to all assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, goodwill is written down to its implied fair value.

The goodwill recognized upon the acquisition of LKE, although entirely recorded at LG&E and KU, was assigned for impairment testing by PPL to its reporting units expected to benefit from the acquisition, which were the Kentucky Regulated segment and the Supply segment. The goodwill recognized upon the acquisition of WPD Midlands was assigned for impairment testing by PPL to its International Regulated segment. See Note 10 for additional information regarding the acquisitions.

Asset Retirement Obligations

PPL and its subsidiaries record liabilities to reflect various legal obligations associated with the retirement of long-lived assets. Initially, this obligation is measured at fair value and offset with an increase in the value of the capitalized asset, which is depreciated over the asset's useful life. Until the obligation is settled, the liability is increased to reflect changes in the obligation due to the passage of time through the recognition of accretion expense classified within "Other operation and maintenance" on the Statements of Income. The accretion and depreciation related to LG&E's and KU's AROs are offset with a regulatory credit on the income statement, such that there is no earnings impact. The regulatory asset created by the regulatory credit is relieved when the ARO is settled.

Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is amortized over the remaining life of the associated long-lived asset. See Note 21 for additional information on AROs.

Compensation and Benefits

Defined Benefits *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

Certain PPL subsidiaries sponsor various defined benefit pension and other postretirement plans. An asset or liability is recorded to recognize the funded status of all defined benefit plans with an offsetting entry to OCI or, for LG&E, KU and PPL Electric, to regulatory assets or liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets.

The expected return on plan assets is determined based on a market-related value of plan assets, which is calculated by rolling forward the prior year market-related value with contributions, disbursements and long-term expected return on investments. One-fifth of the difference between the actual value and the expected value is added (or subtracted if negative) to the expected value to determine the new market-related value.

PPL uses an accelerated amortization method for the recognition of gains and losses for its defined benefit pension plans. Under the accelerated method, actuarial gains and losses in excess of 30% of the plan's projected benefit obligation are amortized on a straight-line basis over one-half of the expected average remaining service of active plan participants. Actuarial gains and losses in excess of 10% of the greater of the plan's projected benefit obligation or the market-related value of plan assets and less than 30% of the plan's projected benefit obligation are amortized on a straight-line basis over the expected average remaining service period of active plan participants.

See Note 13 for a discussion of defined benefits.

Stock-Based Compensation

(PPL, PPL Energy Supply, PPL Electric and LKE)

PPL has several stock-based compensation plans for purposes of granting stock options, restricted stock, restricted stock units and performance units to certain employees as well as stock units and restricted stock units to directors. PPL grants most stock-based awards in the first quarter of each year. PPL and its subsidiaries recognize compensation expense for stock-based awards based on the fair value method. Stock options that vest in installments are valued as a single award. PPL grants stock options with an exercise price that is not less than the fair value of PPL's common stock on the date of grant. See Note 11 for a discussion of stock-based compensation. All awards are recorded as equity or a liability on the Balance Sheets. Stock-based compensation is primarily included in "Other operation and maintenance" on the Statements of Income. Stock-based compensation expense for PPL Energy Supply, PPL Electric and LKE includes an allocation of PPL Services' expense.

Other

Debt Issuance Costs *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

Debt issuance costs are deferred and amortized over the appropriate term for the related debt using the interest method or another method, generally straight-line, if the results obtained are not materially different than those that would result from the interest method.

Income Taxes

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL and its domestic subsidiaries file a consolidated U.S. federal income tax return. Prior to PPL's acquisition of LKE, LKE and its subsidiaries were included in E.ON US Investments Corp.'s consolidated U.S. federal income tax return.

Significant management judgment is required in developing the Registrants' provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and the determination of deferred tax assets, liabilities and valuation allowances.

Significant management judgment is also required to determine the amount of benefit to be recognized in relation to an uncertain tax position. The Registrants use a two-step process to evaluate tax positions. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements of the Registrants in the future.

Deferred income taxes reflect the net future tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes, as well as the tax effects of net operating losses and tax credit carryforwards.

The Registrants record valuation allowances to reduce deferred tax assets to the amounts that are more likely than not to be realized. The Registrants consider the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies in initially recording and subsequently reevaluating the need for valuation allowances. If the Registrants determine that they are able to realize deferred tax assets in the future in excess of recorded net deferred tax assets, adjustments to the valuation allowances increase income by reducing tax expense in the period that such determination is made. Likewise, if the Registrants determine that they are not able to realize all or part of net deferred tax assets in the future, adjustments to the valuation allowances would decrease income by increasing tax expense in the period that such determination is made.

The Registrants defer investment tax credits when the credits are utilized and amortize the deferred amounts over the average lives of the related assets.

The Registrants recognize interest and penalties in "Income Taxes" on their Statements of Income.

See Note 5 for additional discussion regarding income taxes.

(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The income tax provision for PPL Energy Supply, PPL Electric, LKE, LG&E and KU is calculated in accordance with an intercompany tax sharing agreement which provides that taxable income be calculated as if PPL Energy Supply, PPL Electric, LKE, LG&E, KU and any domestic subsidiaries each filed a separate return. Tax benefits are not shared between companies. A tax benefit inures only to the entity that gave rise to said benefit. The effect of PPL filing a consolidated tax return is taken into account in the settlement of current taxes and the recognition of deferred taxes. PPL Energy Supply's intercompany tax payable was $50 million and $26 million at December 31, 2011 and 2010. PPL Electric's intercompany tax receivable was $22 million and $74 million at December 31, 2011 and 2010. LKE's intercompany tax receivable was $3 million and $40 million at December 31, 2011 and 2010. LG&E's intercompany tax receivable was $4 million and $4 million at December 31, 2011 and 2010. KU's intercompany tax receivable was $5 million at December 31, 2011 and the intercompany tax payable was $15 million at December 31, 2010.

(PPL, PPL Electric, LKE, LG&E and KU)

The provision for PPL, PPL Electric, LKE, LG&E and KU's deferred income taxes for regulated assets is based upon the ratemaking principles reflected in rates established by the regulators. The difference in the provision for deferred income taxes for regulated assets and the amount that otherwise would be recorded under GAAP is deferred and included on the Balance Sheet in noncurrent "Regulatory assets" or "Regulatory liabilities."

Taxes, Other Than Income *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

The Registrants present sales taxes in "Accounts Payable" and value-added taxes in "Taxes" on their Balance Sheets. These taxes are not reflected on the Statements of Income. See Note 5 for details on taxes included in "Taxes, other than income" on the Statements of Income.

Leases

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL and its subsidiaries evaluate whether arrangements entered into contain leases for accounting purposes. See Note 11 for a discussion of arrangements under which PPL Energy Supply, LG&E and KU are lessees for accounting purposes.

(PPL and PPL Energy Supply)

PPL EnergyPlus entered into several tolling agreements whereby PPL EnergyPlus was considered the lessor for accounting purposes. See Note 9 for additional information regarding the 2010 sale of the Long Island generation business and the tolling agreements that were transferred to the purchaser upon completion of the sale.

Fuel, Materials and Supplies

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Fuel, natural gas stored underground and materials and supplies are valued at the lower of cost or market using the average cost method. Fuel costs for electric generation are charged to expense as used. For LG&E, natural gas supply costs are charged to expense as delivered to the distribution system. See Note 6 for further discussion of the fuel adjustment clause and gas supply clause.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

"Fuel, materials and supplies" on the Balance Sheets consisted of the following at December 31.

	PPL		PPL Energy Supply	
	2011	2010	2011	2010
Fuel	$ 246	$ 260	$ 96	$ 97
Natural gas stored underground (a)	73	81	20	21
Materials and supplies	335	302	182	179
	$ 654	$ 643	$ 298	$ 297

	LKE		LG&E		KU	
	2011	2010	2011	2010	2011	2010
Fuel	$ 150	$ 163	$ 53	$ 68	$ 97	$ 95
Natural gas stored underground (a)	53	60	53	60		
Materials and supplies	80	75	36	34	44	41
	$ 283	$ 298	$ 142	$ 162	$ 141	$ 136

(a) The majority of LKE's and LG&E's natural gas stored underground is held to serve native load. The majority of PPL Energy Supply's natural gas stored underground is available for resale.

Guarantees *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

Generally, the initial measurement of a guarantee liability is the fair value of the guarantee at its inception. However, there are certain guarantees excluded from the scope of accounting guidance and other guarantees that are not subject to the initial recognition and measurement provisions of accounting guidance that only require disclosure. See Note 15 for further discussion of recorded and unrecorded guarantees.

Treasury Stock *(PPL and PPL Electric)*

PPL and PPL Electric restore all shares of common stock acquired to authorized but unissued shares of common stock upon acquisition.

Foreign Currency Translation and Transactions *(PPL)*

The GBP, which is the local currency, is the functional currency of WPD. As such, assets and liabilities are translated at the exchange rates on the date of consolidation and related revenues and expenses are translated at average exchange rates prevailing during the period included in PPL's results of operations. Adjustments resulting from translation are recorded in AOCI. The effect of translation is removed from AOCI upon the sale or substantial liquidation of the international subsidiary that gave rise to the translation adjustment.

Gains or losses relating to foreign currency transactions are recognized in "Other Income (Expense) - net" on the Statements of Income. Net transaction losses were $15 million in 2011 and insignificant in 2010 and 2009.

New Accounting Guidance Adopted *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

Disclosures about an Employer's Participation in a Multiemployer Plan

Effective December 31, 2011, the Registrants retrospectively adopted accounting guidance issued to improve the transparency about an employer's participation in a multiemployer plan. The disclosures required by this guidance include the significant multiemployer plans in which an employer participates, the level of the employer's participation in these plans, the financial health of these plans and the nature of employer commitments to these plans. For plans for which users are unable to obtain additional publicly available information outside the employer's financial statements, additional disclosures are required.

The adoption of this standard resulted in additional footnote disclosure for PPL and PPL Energy Supply but did not have a significant impact on any of the Registrants. See Note 13 for disclosures related to PPL Energy Supply's participation in multiemployer plans.

Presentation of Comprehensive Income

Effective December 31, 2011, the Registrants retrospectively adopted accounting guidance that was issued to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items that are recorded in OCI. This guidance requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements where the first statement includes the components of net income and the second statement includes the components of OCI.

Regardless of whether an entity chooses to present comprehensive income in a single continuous statement or in two separate but consecutive statements, the guidance also would have required an entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. However, subsequent to the issuance of this new accounting guidance, this requirement that companies present reclassification adjustments for each component of OCI in both net income and OCI on the face of the financial statements was deferred for further evaluation. The deferral did not change the requirement to present items of net income, items of other comprehensive income and total comprehensive income in either one continuous statement or two separate consecutive statements.

The Registrants required to present comprehensive income have elected to present two separate consecutive statements. The adoption of this standard resulted in a change in presentation and additional footnote disclosure that did not have a significant impact on the Registrants.

2. Segment and Related Information

(PPL and PPL Energy Supply)

Since the acquisition of LKE on November 1, 2010, PPL is organized into four segments: Kentucky Regulated, International Regulated, Pennsylvania Regulated and Supply. PPL's segments are split between its regulated and competitive businesses with its regulated businesses further segmented by geographic location.

The Kentucky Regulated segment consists primarily of LKE's regulated electric generation, transmission and distribution operations, primarily in Kentucky. This segment also includes LKE's regulated distribution and sale of natural gas in Kentucky. In addition, the Kentucky Regulated segment includes certain financing activities associated with the acquisition of LKE. See Note 10 for additional information regarding the acquisition.

The International Regulated segment primarily consists of the regulated electric distribution operations in the U.K. This includes the operating results and assets of WPD Midlands since the April 1, 2011 acquisition date recorded on a one-month lag. The International Regulated segment also includes certain acquisition-related costs and financing activities associated with the acquisition of WPD Midlands. See Note 10 for additional information regarding the acquisition.

The Pennsylvania Regulated segment includes the regulated electric transmission and distribution operations of PPL Electric.

The Supply segment primarily consists of the domestic energy marketing and trading activities, as well as the competitive generation operations of PPL Energy Supply. In 2011, 2010 and 2009, PPL Energy Supply sold certain Supply segment generation facilities and businesses. See Note 9 for additional information.

"Unallocated Costs" represent one-time LKE acquisition-related costs including advisory, accounting and legal fees, certain internal costs and 2010 Bridge Facility costs.

The results of several facilities and businesses have been classified as Discontinued Operations on the Statements of Income. See Note 9 for additional information on these discontinued operations. Therefore, with the exception of "Net Income Attributable to PPL/PPL Energy Supply," the operating results from these facilities and businesses have been excluded from the income statement data tables below.

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. Following the distribution, PPL Energy Supply operates in a single reportable segment, the Supply segment. PPL Energy Supply's 2010 and 2009 segment information was revised to reflect PPL Global as a Discontinued Operation. See Note 9 for additional information. The Supply segment information reported by PPL Energy Supply does not equal the Supply segment information reported by PPL because additional Supply segment functions exist at PPL. Further, certain income items, including PLR revenue and certain interest income with affiliates, exist at PPL Energy Supply but are eliminated in consolidation by PPL. Finally, certain expense items are fully allocated to the segments by PPL only.

Segment costs include direct charges, as well as an allocation of indirect corporate service costs, from PPL Services. These service costs include functions such as financial, legal, human resources and information services. See Note 16 for additional information.

Financial data for the segments are:

	PPL			PPL Energy Supply		
	2011	2010	2009	2011	2010	2009
Income Statement Data						
Revenues from external customers by product						
Kentucky Regulated						
Utility service (b)	$ 2,793	$ 493				
International Regulated						
Utility service (b)	1,618	727	$ 684			
Energy-related businesses	35	34	32			
Total	1,653	761	716			
Pennsylvania Regulated						
Utility service (b)	1,881	2,448	3,218			
Supply						
Energy (a)	5,938	4,444	3,124	$ 5,965	$ 4,764	$ 4,930
Energy-related businesses	472	375	391	464	364	379
Total	6,410	4,819	3,515	6,429	5,128	5,309
Total	12,737	8,521	7,449	6,429	5,128	5,309
Intersegment electric revenues						
Pennsylvania Regulated	11	7	74			
Supply (c)	26	320	1,806			
Depreciation						
Kentucky Regulated	334	49				
International Regulated	218	117	115			
Pennsylvania Regulated	146	136	128			
Supply	262	254	212			
Total	960	556	455	244	236	196

	PPL			PPL Energy Supply		
	2011	2010	2009	2011	2010	2009
Amortization (d)						
Kentucky Regulated	27					
International Regulated	83	13	(13)			
Pennsylvania Regulated	7	(22)	312			
Supply	137	148	90			
Unallocated costs		74				
Total	254	213	389	137	147	88
Unrealized (gains) losses on derivatives and other hedging activities (a)						
Kentucky Regulated	(2)	1				
Supply	(312)	541	329			
Total	(314)	542	329	(283)	536	330
Interest income (e)						
International Regulated	4	2	1			
Pennsylvania Regulated	1	4	11			
Supply	2	2	2			
Total	7	8	14	9	12	7
Interest Expense (f)						
Kentucky Regulated	217	55				
International Regulated	391	135	87			
Pennsylvania Regulated	98	99	118			
Supply	192	224	182			
Unallocated costs		80				
Total	898	593	387	174	208	176
Income from Continuing Operations Before Income Taxes						
Kentucky Regulated	349	40				
International Regulated	358	261	290			
Pennsylvania Regulated	257	192	221			
Supply (a)	1,237	860	27			
Unallocated costs		(114)				
Total	2,201	1,239	538	1,212	881	(13)
Income Taxes (g)						
Kentucky Regulated	127	16				
International Regulated	33		20			
Pennsylvania Regulated	68	57	79			
Supply	463	228	6			
Unallocated costs		(38)				
Total	691	263	105	445	261	3
Deferred income taxes and investment tax credits (h)						
Kentucky Regulated	218	51				
International Regulated	(39)	17	12			
Pennsylvania Regulated	106	198	(23)			
Supply	299	(15)	133			
Total	584	251	122	318	(25)	147
Net Income Attributable to PPL/PPL Energy Supply						
Kentucky Regulated	221	26				
International Regulated (i)	325	261	243		261	243
Pennsylvania Regulated	173	115	124			
Supply (a) (j)	776	612	40	768	600	3
Unallocated costs		(76)				
Total	$ 1,495	$ 938	$ 407	$ 768	$ 861	$ 246
Cash Flow Data						
Expenditures for long-lived assets						
Kentucky Regulated	$ 465	$ 152				
International Regulated	862	281	$ 240		$ 281	$ 240
Pennsylvania Regulated	490	411	298			
Supply	739	795	723	$ 702	760	694
Total	$ 2,556	$ 1,639	$ 1,261	$ 702	$ 1,041	$ 934

	PPL		PPL Energy Supply	
	As of December 31,		As of December 31,	
	2011	2010	2011	2010
Balance Sheet Data				
Total Assets				
Kentucky Regulated (k)	$ 10,229	$ 10,318		
International Regulated	13,364	4,800		$ 4,800
Pennsylvania Regulated	5,610	5,189		
Supply (k)	13,445	12,530	$ 13,179	11,996
Total	$ 42,648	$ 32,837	$ 13,179	$ 16,796

	PPL			PPL Energy Supply		
	2011	2010	2009	2011	2010	2009
Geographic Data						
Revenues from external customers						
U.S.	$ 11,084	$ 7,760	$ 6,733	$ 6,429	$ 5,128	$ 5,309
U.K.	1,653	761	716			
Total	$ 12,737	$ 8,521	$ 7,449	$ 6,429	$ 5,128	$ 5,309

	PPL		PPL Energy Supply	
	As of December 31,		As of December 31,	
	2011	2010	2011	2010
Long-Lived Assets				
U.S.	$ 19,129	$ 18,228	$ 6,872	$ 6,519
U.K.	8,996	3,505		3,505
Total	$ 28,125	$ 21,733	$ 6,872	$ 10,024

(a) Includes unrealized gains and losses from economic activity. See Note 19 for additional information.
(b) See Note 1 for additional information on Utility Revenue.
(c) See "PLR Contracts/Purchase of Accounts Receivable" and "NUG Purchases" in Note 16 for a discussion of the basis of accounting between reportable segments.
(d) Represents non-cash expense items that include amortization of nuclear fuel, regulatory assets, debt discounts and premiums, debt issuance costs, emission allowances and RECs.
(e) Includes interest income from affiliate(s).
(f) Includes interest expense with affiliate(s).
(g) Represents both current and deferred income taxes, including investment tax credits.
(h) Represents a non-cash expense item that is also included in "Income Taxes."
(i) For PPL Energy Supply, 2010 and 2009 were reported as Discontinued Operations. See Note 9 for additional information, including the $24 million of income tax expense recognized in 2009 by the International Regulated segment related to a correction of income tax bases for the Latin American businesses sold in 2007.
(j) In April 2011, during the PPL Susquehanna Unit 2 refueling and generation uprate outages, a planned inspection of the Unit 2 turbine revealed cracks in certain of its low pressure turbine blades. As a precaution, PPL Susquehanna also took Unit 1 out of service in mid-May to inspect that unit's turbine blades. This inspection revealed cracked blades similar to those found in Unit 2. Replacement of these blades was completed, significantly extending these outages. The after-tax earnings impact, including reduced energy sales margins and repair expense for both units was $63 million in 2011.
(k) A portion of the goodwill related to the 2010 LKE acquisition has been attributed to PPL's Supply segment.

(PPL Electric, LKE, LG&E and KU)

PPL Electric, LKE, LG&E and KU each operate within a single reportable segment.

3. Preferred Securities

Preferred Stock

(PPL)

PPL is authorized to issue up to 10 million shares of preferred stock. No PPL preferred stock was issued or outstanding in 2011, 2010, or 2009.

PPL classifies preferred securities of a subsidiary as "Noncontrolling interests" on the Balance Sheets. Dividend requirements of $16 million for 2011, $17 million for 2010 and $18 million for 2009 were included in "Net Income Attributable to Noncontrolling Interests" on the Statements of Income.

(PPL Electric)

PPL Electric is authorized to issue up to 629,936 shares of 4-1/2% Preferred Stock and 10 million shares of series preferred stock. There were 247,524 shares of 4-1/2% Preferred Stock (amounting to $25 million) and an aggregate of 257,665 shares of four series of preferred stock (amounting to $26 million) issued and outstanding at December 31, 2009.

In April 2010, PPL Electric redeemed all of its outstanding preferred stock, with a par value in the aggregate of $51 million, for $54 million including accumulated dividends. The redeemed shares are no longer outstanding and represent only the right to receive the applicable redemption price, to the extent the shares have not yet been presented for payment. The premium of $3 million is included in "Distributions on Preferred Securities" on the Statement of Income.

(LG&E)

LG&E is authorized to issue up to 1,720,000 shares of preferred stock at a $25 par value and 6,750,000 shares of preferred stock without par value. LG&E had no preferred stock issued or outstanding in 2011, 2010 or 2009.

(KU)

KU is authorized to issue up to 5,300,000 shares of preferred stock without par value. KU had no preferred stock issued or outstanding in 2011, 2010 or 2009.

Preference Stock

(PPL Electric)

Of the 10 million shares of Preference Stock authorized, PPL Electric had 2.5 million shares of 6.25% Series Preference Stock (Preference Shares) issued and outstanding in 2011, 2010 and 2009. The Preference Shares are held by a bank that acts as depositary for 10 million depositary shares, each of which represents a one-quarter interest in a Preference Share. Holders of the depositary shares are entitled to all proportional rights and preferences of the Preference Shares, including dividend, voting, redemption and liquidation rights, exercised through the bank acting as a depositary. The Preference Shares rank senior to PPL Electric's common stock but have no voting rights, except as provided by law, and they have a liquidation preference of $100 per share (equivalent to $25 per depositary share). The Preference Shares, which have no stated maturity date and no sinking fund requirements, have been redeemable by PPL Electric since April 6, 2011 for $100 per share (equivalent to $25 per depositary share).

Dividends on the Preference Shares are not cumulative and will be paid when, as and if declared by the Board of Directors at a fixed annual rate of 6.25%, or $1.5625 per depositary share per year. PPL Electric may not pay dividends on, or redeem, purchase or make a liquidation payment with respect to any of its common stock, except in certain circumstances, unless full dividends on the Preference Shares have been paid for the then-current dividend period.

(KU)

KU is authorized to issue up to 2,000,000 shares of preference stock without par value. KU had no preference stock issued or outstanding in 2011, 2010 or 2009.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of shares outstanding that are increased for additional shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the treasury stock method. In 2011, 2010 and 2009, these securities included stock options and performance units granted under incentive compensation plans. Additionally, the 2011 and 2010 Purchase Contracts associated with the 2011 and 2010 Equity Units will be dilutive under the treasury stock method if the average VWAP of PPL's common stock for a certain period exceeds approximately $30.99 and $28.80. The 2011 Purchase Contracts were excluded from the diluted EPS calculations because they did not meet this criteria during 2011. The 2010 Purchase Contracts were included in the diluted EPS calculation for 2011 as they met this criteria for a portion of that year, but were excluded from the diluted EPS calculations for 2010 because they did not meet this criteria for that year. Subject to antidilution adjustments at December 31, 2011, the maximum number of shares issuable to settle the Purchase Contracts was 101,552,245 shares, including

86,552,565 shares that could be issued under standard provisions of the Purchase Contracts and 14,999,680 shares that could be issued under make-whole provisions in the event of early settlement upon a Fundamental Change. See Note 7 for additional information on both the 2011 and 2010 Equity Units.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended December 31 used in the EPS calculation are:

	2011	2010	2009
Income (Numerator)			
Income from continuing operations after income taxes attributable to PPL	$ 1,493	$ 955	$ 414
Less amounts allocated to participating securities	6	4	2
Income from continuing operations after income taxes available to PPL common shareowners	$ 1,487	$ 951	$ 412
Income (loss) from discontinued operations (net of income taxes) available to PPL	$ 2	$ (17)	$ (7)
Net income attributable to PPL	$ 1,495	$ 938	$ 407
Less amounts allocated to participating securities	6	4	2
Net income available to PPL common shareowners	$ 1,489	$ 934	$ 405
Shares of Common Stock (Denominator)			
Weighted-average shares - Basic EPS	550,395	431,345	376,082
Add incremental non-participating securities:			
Stock options and performance units	400	224	324
2010 Purchase Contracts	157		
Weighted-average shares - Diluted EPS	550,952	431,569	376,406
Basic EPS			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	$ 2.70	$ 2.21	$ 1.10
Income (loss) from discontinued operations (net of income taxes)	0.01	(0.04)	(0.02)
Net Income	$ 2.71	$ 2.17	$ 1.08
Diluted EPS			
Available to PPL common shareowners:			
Income from continuing operations after income taxes	$ 2.70	$ 2.20	$ 1.10
Income (loss) from discontinued operations (net of income taxes)		(0.03)	(0.02)
Net Income	$ 2.70	$ 2.17	$ 1.08

During 2011, PPL issued 443,865 shares of common stock related to the exercise of stock options, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors under its stock-based compensation plans. In addition, PPL issued 301,319 and 2,269,388 shares of common stock related to its ESOP and DRIP during 2011. See Note 12 for a discussion of PPL's stock-based compensation plans.

See Note 7 for information on the issuance of common stock and 2011 and 2010 Equity Units.

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

(Shares in thousands)	2011	2010	2009
Stock options	5,084	4,936	2,394
Performance units	2	45	1

5. Income and Other Taxes

(PPL)

"Income from Continuing Operations Before Income Taxes" included the following components:

	2011	2010	2009
Domestic income	$ 1,715	$ 952	$ 207
Foreign income	486	287	331
Total	$ 2,201	$ 1,239	$ 538

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes and the tax effects of net operating loss and tax credit carryforwards. The provision for PPL's deferred income taxes for regulated assets is based upon the ratemaking principles of the applicable jurisdiction. See Notes 1 and 6 for additional information.

Net deferred tax assets have been recognized based on management's estimates of future taxable income for the U.S. and certain foreign jurisdictions in which PPL's operations have historically been profitable.

Significant components of PPL's deferred income tax assets and liabilities were as follows:

	2011	2010
Deferred Tax Assets		
Deferred investment tax credits	$ 113	$ 45
Regulatory obligations	149	205
Accrued pension costs	325	316
Accrued litigation costs	2	31
Federal loss carryforwards	305	314
State loss carryforwards	272	269
Federal tax credit carryforwards	240	169
Foreign capital loss carryforwards	578	377
Foreign loss carryforwards	7	
Foreign - pensions	74	87
Foreign - regulatory obligations	67	
Foreign - other	21	8
Contributions in aid of construction	133	152
Domestic - other	227	219
Valuation allowances	(724)	(464)
Total deferred tax assets	1,789	1,728
Deferred Tax Liabilities		
Domestic plant - net	3,465	3,010
Taxes recoverable through future rates	137	105
Unrealized gain on qualifying derivatives	331	298
Other regulatory assets	234	321
Regulatory undercollections		22
Reacquired debt costs	93	25
Foreign plant - net	975	526
Foreign - other	22	36
Domestic - other	103	95
Total deferred tax liabilities	5,360	4,438
Net deferred tax liability	$ 3,571	$ 2,710

PPL had the following loss and tax credit carryforwards.

	2011	2010	Expiration
Loss carryforwards			
Federal net operating losses (a)	$ 876	$ 799	2028-2031
Federal capital losses (a)		155	2011-2014
State net operating losses (b)	4,537	4,168	2012-2031
State capital losses (b)	137	181	2011-2015
Foreign net operating losses	28		Indefinite
Foreign capital losses (c)	2,311	1,395	Indefinite
Credit carryforwards			
Federal investment tax credit (a)	180	125	2025-2031
Federal AMT credit (a)	20	20	Indefinite
Federal foreign tax credit	12		2017-2021
Federal - other (a)	28	24	2016-2031

(a) 2010 loss and credit carryforwards associated with the acquisition of LKE. LKE's federal capital loss carryforwards were fully utilized in 2011.
(b) 2010 state net operating loss and state capital loss carryforwards associated with the acquisition of LKE are $1.0 billion and $163 million.
(c) 2011 includes $456 million of foreign capital losses associated with WPD Midlands.

Valuation allowances have been established for the amount that, more likely than not, will not be realized. The changes in deferred tax valuation allowances were:

	Balance at Beginning of Period	Additions: Charged to Income	Additions: Charged to Other Accounts	Deductions	Balance at End of Period
2011	$ 464	$ 190	$ 112 (a)	$ 42 (b)	$ 724
2010	312	221	6 (c)	75 (d)	464
2009	285	24	17 (e)	14 (f)	312

(a) Primarily related to a $101 million valuation allowance that was recorded against certain deferred tax assets as a result of the 2011 acquisition of WPD Midlands. See Note 10 for additional information on the acquisition.
(b) The reduction of the U.K. statutory income tax rate resulted in a $35 million reduction in the valuation allowance. See "Reconciliation of Income Tax Expense" below for more information on the impact of the U.K. Finance Act of 2011.
(c) A valuation allowance was recorded against certain deferred tax assets as a result of the 2010 acquisition of LKE. See Note 10 for additional information on the acquisition.
(d) Resulting from the projected revenue increase in connection with the expiration of the Pennsylvania generation rate caps in 2010, the valuation allowance related to state net operating loss carryforwards over the remaining carryforward period was reduced by $72 million (or $0.17 per share, basic and diluted).
(e) Related to the change in foreign net operating loss carryforwards, including the change in foreign currency exchange rates.
(f) Primarily from the projected revenue increase in connection with the expiration of the Pennsylvania generation rate caps in 2010, the valuation allowance related to a portion of state net operating loss carryforwards was reduced by $13 million.

PPL Global does not pay or record U.S. income taxes on the undistributed earnings of WPD, as management has determined that the earnings are indefinitely reinvested. Historically, dividends paid by WPD have been distributions from current year's earnings. WPD's long-term working capital forecasts and capital expenditure projections for the foreseeable future require reinvestment of WPD's undistributed earnings, and WPD would have to issue debt or access credit facilities to fund any distributions in excess of current earnings. Additionally, U.S. long-term working capital forecasts and capital expenditure projections for the foreseeable future do not require or contemplate distributions from WPD in excess of some portion of future WPD earnings. The cumulative undistributed earnings are included in "Earnings Reinvested" on the Balance Sheets. The amounts considered permanently reinvested at December 31, 2011 and 2010 were $1.2 billion and $837 million. If the WPD earnings were remitted as dividends, PPL Global could be subject to additional U.S. taxes, net of allowable foreign tax credits. It is not practicable to estimate the amount of additional taxes that could be payable on these foreign earnings.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2011	2010	2009
Income Tax Expense (Benefit)			
Current - Federal	$ 54	$ (51)	$ (72)
Current - State	(20)	43	14
Current - Foreign	73	20	41
Total Current Expense (Benefit)	107	12	(17)
Deferred - Federal	558	358	130
Deferred - State	127	(82)	(10)
Deferred - Foreign	(23)	(9)	16
Total Deferred Expense (Benefit), excluding operating loss carryforwards	662	267	136
Investment tax credit, net - Federal	(10)	(5)	(14)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(30)	6	
Deferred - State	(38)	(17)	
Total Tax Benefit of Operating Loss Carryforwards	(68)	(11)	
Total income taxes from continuing operations (a)	$ 691	$ 263	$ 105
Total income tax expense - Federal	$ 572	$ 308	$ 44
Total income tax expense - State	69	(56)	4
Total income tax expense - Foreign	50	11	57
Total income taxes from continuing operations (a)	$ 691	$ 263	$ 105

(a) Excludes current and deferred federal, state and foreign tax expense (benefit) recorded to Discontinued Operations of $2 million in 2011, $(6) million in 2010 and $46 million in 2009. Excludes realized tax expense (benefits) related to stock-based compensation, recorded as a decrease (increase) to additional paid-in capital of $3 million in 2011 and insignificant amounts in 2010 and 2009. Excludes tax benefits related to the issuance costs of the Purchase Contracts, recorded as an increase to additional paid-in capital in the amount of $5 million in 2011 and $10 million in 2010, offset by an insignificant amount of related valuation allowances for state deferred taxes in 2011. Also excludes federal, state, and foreign tax expense (benefit) recorded to OCI of $(137) million in 2011, $83 million in 2010 and $358 million in 2009, and related valuation allowances for state deferred taxes in the amount of $3 million for 2011.

	2011	2010	2009
Reconciliation of Income Tax Expense			
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 770	$ 434	$ 188
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	63	36	10
State valuation allowance adjustments (a)	36	(65)	(13)
Impact of lower U.K. income tax rates	(41)	(20)	(23)
U.S. income tax on foreign earnings - net of foreign tax credit (b)	(26)	34	(16)
Federal and state tax reserves adjustments (c)	39	(60)	(5)
Foreign tax reserves adjustments (d)	(141)		17
Federal and state income tax return adjustments (e)	(17)	(3)	21
Domestic manufacturing deduction (e) (f)		(11)	(3)
Health Care Reform (g)		8	
Foreign losses resulting from restructuring (d)		(261)	(46)
Enactment of the U.K.'s Finance Acts 2011 and 2010 (h)	(69)	(18)	
Federal income tax credits (i)	(13)	(12)	(2)
Depreciation not normalized (a)	(20)	(3)	(1)
Foreign valuation allowance adjustments (d)	147	215	
State deferred tax rate change (j)	(26)		
Other	(11)	(11)	(22)
Total increase (decrease)	(79)	(171)	(83)
Total income taxes from continuing operations	$ 691	$ 263	$ 105
Effective income tax rate	31.4%	21.2%	19.5%

(a) During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for Federal income tax purposes. Due to the decrease in taxable income related to bonus depreciation and a decrease in projected future taxable income, PPL recorded $43 million in state deferred income tax expense related to deferred tax valuation allowances.

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

Pennsylvania H.B. 1531, enacted in October 2009, increased the net operating loss limitation to 20% of taxable income for tax years beginning in 2010. During 2009, based on the projected revenue increase due to the expiration of the Pennsylvania generation rate caps in 2010, PPL recorded a $13 million state deferred income tax benefit related to the reversal of deferred tax valuation allowances for a portion of its Pennsylvania net operating losses. During 2010, PPL recorded an additional $72 million state deferred income tax benefit related to the reversal of deferred tax valuation allowances related to the future projections of taxable income over the remaining carryforward period of the net operating losses.

(b) During 2011, PPL recorded a $28 million federal income tax benefit related to U.K. pension contributions.

During 2010, PPL recorded additional U.S. income tax expense resulting from increased taxable dividends and certain restructuring of U.K. entities.

(c) In 1997, the U.K. imposed a Windfall Profits Tax (WPT) on privatized utilities, including WPD. PPL filed its tax returns for years subsequent to its 1997 and 1998 claims for refund on the basis that the U.K. WPT was creditable. In September 2010, the U.S. Tax Court (Tax Court) ruled in PPL's favor in a dispute with the IRS, concluding that the U.K. WPT is a creditable tax for U.S. tax purposes. As a result and with the finalization of other issues, PPL recorded a $42 million tax benefit in 2010. In January 2011, the IRS appealed the Tax Court's decision to the U.S. Court of Appeals for the Third Circuit (Third Circuit). In December 2011, the Third Circuit issued its opinion reversing the Tax Court's decision and holding that the U.K. WPT is not a creditable tax. As a result of the Third Circuit's adverse determination, PPL recorded a $39 million expense in 2011. On February 27, 2012, PPL filed with the Third Circuit a petition for rehearing of its opinion on this matter.

In July 2010, the U.S. Tax Court ruled in PPL's favor in a dispute with the IRS, concluding that street lighting assets are depreciable for tax purposes over seven years. As a result, PPL recorded a $7 million tax benefit to federal and state income tax reserves and related deferred income taxes. The IRS did not appeal this decision.

During 2011, 2010 and 2009, PPL recorded a $6 million, $7 million and $6 million tax benefit to federal and state income tax reserves related to stranded cost securitization.

(d) During 2011, WPD reached an agreement with the HM Revenue & Customs, the U.K. tax authority, related to the amount of the capital losses that resulted from prior years' restructuring in the U.K. and recorded a $147 million foreign tax benefit for the reversal of tax reserves related to the capital losses. Additionally, WPD recorded a $147 million valuation allowance for the amount of capital losses that, more likely than not, will not be utilized.

During 2010, PPL recorded a $261 million foreign tax benefit in conjunction with losses resulting from restructuring in the U.K. A portion of these losses offset tax on a deferred gain from a prior year sale of WPD's supply business. WPD recorded a $215 million valuation allowance for the amount of capital losses that, more likely than not, will not be realized.

During 2009, PPL recorded a $46 million foreign tax benefit and a related $46 million tax reserve related to losses resulting from restructuring in the U.K. Additionally, PPL recorded a $29 million foreign tax benefit related to the resolution of a tax dispute and foreign currency exchange losses.

(e) During 2011, PPL recorded $17 million in federal and state tax benefits related to the filing of the 2010 federal and state income tax returns. Of this amount, $7 million in tax benefits relate to an additional domestic manufacturing deduction resulting from revised bonus depreciation amounts and $3 million in tax benefits relate to the flow-through impact of Pennsylvania regulated state tax depreciation.

During 2009, PPL received consent from the IRS to change its method of accounting for certain expenditures for tax purposes. PPL deducted the resulting IRC Sec. 481 adjustment on its 2008 federal income tax return and recorded a $24 million adjustment to federal and state income tax expense resulting from the reduction in federal income tax benefits related to the domestic manufacturing deduction and certain state tax benefits related to state net operating losses and regulated depreciation.

(f) During 2010, PPL recorded an increase in tax benefits related to domestic manufacturing deductions due to an increase in domestic taxable income resulting from the expiration of generation rate caps in 2010. In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation deduction related to bonus depreciation significantly reduced the tax benefits related to domestic manufacturing deductions during 2010 and eliminated the tax benefit in 2011.

(g) Beginning in 2013, provisions within Health Care Reform eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, PPL recorded deferred income tax expense during 2010. See Note 13 for additional information.

(h) The U.K.'s Finance Act of 2011, enacted in July 2011, included reductions in the U.K. statutory income tax rate. The statutory income tax rate was reduced from 27% to 26% retroactive to April 1, 2011 and will be reduced from 26% to 25 % effective April 1, 2012. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit during 2011 related to both tax rate decreases.

The U.K.'s Finance Act of 2010, enacted in July 2010, included a reduction in the U.K. statutory income tax rate. Effective April 1, 2011, the statutory income tax rate was reduced from 28% to 27%. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit.

(i) During 2011 and 2010, PPL recorded a deferred tax benefit related to investment tax credits on progress expenditures related to hydroelectric plant expansions. See Note 8 for additional information.

(j) During 2011, PPL completed the sale of certain non-core generation facilities. See Note 9 for additional information. Due to changes in state apportionment resulting in the reduction in the future estimated state tax rate, PPL recorded a deferred tax benefit related to its December 31, 2011 state deferred tax liabilities.

	2011	2010	2009
Taxes, other than income			
State gross receipts	$ 140	$ 145	$ 187
State utility realty	(9)	5	5
State capital stock	18	6	6
Foreign property	113	52	57
Domestic property and other	64	30	25
Total	$ 326	$ 238	$ 280

See Note 6 for information on a settlement related to PURTA tax that was returned to PPL Electric customers.

(PPL Energy Supply)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes and the tax effects of net operating loss and tax credit carryforwards.

Net deferred tax assets have been recognized based on management's estimates of future taxable income for the U.S. and certain foreign jurisdictions in which PPL Energy Supply's operations have historically been profitable.

Significant components of PPL Energy Supply's deferred income tax assets and liabilities were as follows:

	2011	2010
Deferred Tax Assets		
Deferred investment tax credits	$ 55	$ 33
Accrued pension costs	100	100
Accrued litigation costs	1	31
Federal loss carryforwards	1	
Federal tax credit carryforwards	58	
State loss carryforwards	78	111
Foreign capital loss carryforwards		377
Foreign - pensions		87
Foreign - other		8
Domestic - other	79	84
Valuation allowances	(72)	(408)
Total deferred tax assets	300	423
Deferred Tax Liabilities		
Domestic plant - net	1,407	1,246
Unrealized gain on qualifying derivatives	380	326
Foreign - plant		526
Foreign - other		36
Domestic other	51	52
Total deferred tax liabilities	1,838	2,186
Net deferred tax liability	$ 1,538	$ 1,763

PPL Energy Supply had the following loss and tax credit carryforwards.

	2011	2010	Expiration
Loss carryforwards			
Federal net operating losses	$ 3		2031
State net operating losses (a)	1,198	$ 1,714	2012-2031
Foreign capital losses (a)		1,395	Indefinite
Credit carryforwards			
Federal investment tax credit	55		2031
Federal - other	3		2031

(a) During 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Funding. See Note 9 for additional information.

Valuation allowances have been established for the amount that, more likely than not, will not be realized. The changes in deferred tax valuation allowances were:

		Additions			
	Balance at Beginning of Period	Charged to Income	Charged to Other Accounts	Deductions	Balance at End of Period
2011	$ 408	$ 22		$ 358 (a)	$ 72
2010	255	205		52 (b)	408
2009 (c)	226	12	$ 17 (d)		255

(a) During 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Funding. See Note 9 for additional information.
(b) Resulting from the projected revenue increase in connection with the expiration of the Pennsylvania generation rate caps in 2010, the valuation allowance related to state net operating loss carryforwards over the remaining carryforward period was reduced by $52 million.
(c) Pennsylvania state legislation, enacted in 2007 and 2009, increased the net operating loss limitation. As a result, the deferred tax asset (and related valuation allowance) associated with certain of its Pennsylvania net operating loss carryforwards for all periods presented were increased to reflect the higher limitation. There was no impact on the net deferred tax asset position as a result of the legislation and related adjustments.
(d) Primarily related to the change in foreign net operating loss carryforwards including the change in currency exchange rates.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income (Loss) from Continuing Operations Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2011	2010	2009
Income Tax Expense (Benefit)			
Current - Federal	$ 139	$ 208	$ (137)
Current - State	(12)	78	(7)
Total Current Expense (Benefit)	127	286	(144)
Deferred - Federal	251	66	128
Deferred - State	70	(89)	31
Total Deferred Expense (Benefit)	321	(23)	159
Investment tax credit, net - federal	(3)	(2)	(12)
Total income taxes from continuing operations (a)	$ 445	$ 261	$ 3
Total income tax expense (benefit) - Federal	$ 387	$ 272	$ (21)
Total income tax expense (benefit) - State	58	(11)	24
Total income taxes from continuing operations (a)	$ 445	$ 261	$ 3

(a) Excludes current and deferred federal, state and foreign tax expense (benefit) recorded to Discontinued Operations of $3 million in 2011, $(5) million in 2010 and $66 million in 2009. Also, excludes federal, state and foreign tax expense (benefit) recorded to OCI of $(83) million in 2011, $132 million in 2010 and $338 million in 2009. The deferred tax benefit of operating loss carryforwards was insignificant for 2011, 2010 and 2009.

	2011	2010	2009
Reconciliation of Income Tax Expense			
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 424	$ 308	$ (5)

	2011	2010	2009
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	60	41	2
State valuation allowance adjustments (a)	22	(52)	
State deferred tax rate change (b)	(26)		
Federal and state tax reserves adjustments	2	(11)	(3)
Domestic manufacturing deduction (c) (d)		(11)	(3)
Federal and state income tax return adjustments (d)	(22)	(6)	23
Health Care Reform (e)		5	
Federal income tax credits (f)	(12)	(12)	(2)
Other	(3)	(1)	(9)
Total increase (decrease)	21	(47)	8
Total income taxes from continuing operations	$ 445	$ 261	$ 3
Effective income tax rate	36.7%	29.6%	(23.1)%

(a) During 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for Federal income tax purposes. Due to the decrease in taxable income related to bonus depreciation and a decrease in projected future taxable income, PPL Energy Supply recorded $22 million state deferred income tax expense related to deferred tax valuation allowances.

Pennsylvania H.B. 1531, enacted in October 2009, increased the net operating loss limitation to 20% of taxable income for tax years beginning in 2010. Based on the projected revenue increase related to the expiration of the generation rate caps, PPL Energy Supply recorded a $52 million state deferred income tax benefit related to the reversal of deferred tax valuation allowances over the remaining carry forward period of the net operating losses.

(b) During 2011, PPL Energy Supply completed the sale of certain non-core generation facilities. See Note 9 for additional information. Due to changes in state apportionment resulting in the reduction in the future estimated state tax rate, PPL Energy Supply recorded a deferred tax benefit related to its December 31, 2011 state deferred tax liabilities.

(c) During 2010, PPL Energy Supply recorded an increase in tax benefits related to domestic manufacturing deductions due to an increase in domestic taxable income resulting from the expiration of Pennsylvania generation rate caps in 2010. In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation deduction related to bonus depreciation significantly reduced the tax benefits related to domestic manufacturing deductions during 2010 and eliminated the tax benefit in 2011.

(d) During 2011, PPL recorded $22 million in federal and state tax benefits related to the filing of the 2010 federal and state income tax returns. $7 million in tax benefits relate to an additional domestic manufacturing deduction resulting from revised bonus depreciation amounts.

During 2009, PPL Energy Supply received consent from the IRS to change its method of accounting for certain expenditures for tax purposes. PPL Energy Supply deducted the resulting IRC Sec. 481 adjustment on its 2008 federal income tax return and recorded a $21 million adjustment to federal and state income tax expense resulting from the reduction in federal income tax benefits related to the domestic manufacturing deduction and certain state tax benefits related to state net operating losses.

(e) Beginning in 2013, provisions within Health Care Reform eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, PPL Energy Supply recorded deferred income tax expense during 2010. See Note 13 for additional information.

(f) During 2011 and 2010, PPL Energy Supply recorded a deferred tax benefit related to investment tax credits on progress expenditures related to hydroelectric plant expansions. See Note 8 for additional information.

	2011	2010	2009
Taxes, other than income			
State gross receipts	$ 31	$ 15	
State realty	1		
State capital stock	12	4	$ 3
Domestic property and other	27	27	26
Total	$ 71	$ 46	$ 29

(PPL Electric)

The provision for PPL Electric's deferred income taxes for regulated assets is based upon the ratemaking principles reflected in rates established by the PUC and the FERC. The difference in the provision for deferred income taxes for regulated assets and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" on the Balance Sheets.

Significant components of PPL Electric's deferred income tax assets and liabilities were as follows:

	2011	2010
Deferred Tax Assets		
Deferred investment tax credits	$ 2	$ 3
Accrued pension costs	93	89
Contributions in aid of construction	104	103
Regulatory obligations	25	4
State loss carryforwards	26	11
Federal loss carryforwards	3	
Other	30	43
Total deferred tax assets	283	253
Deferred Tax Liabilities		
Electric utility plant - net	1,078	934
Taxes recoverable through future rates	120	105
Reacquired debt costs	32	12
Regulatory undercollections		22
Other regulatory assets	114	108
Other	29	19
Total deferred tax liabilities	1,373	1,200
Net deferred tax liability	$ 1,090	$ 947

PPL Electric had the following loss carryforwards.

	2011	2010	Expiration
Loss carryforwards			
Federal net operating losses	$ 14		2031
State net operating losses	404	$ 176	2030-2031

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2011	2010	2009
Income Tax Expense (Benefit)			
Current - Federal	$ (25)	$ (127)	$ 80
Current - State	(13)	(14)	22
Total Current Expense	(38)	(141)	102
Deferred - Federal	123	184	(4)
Deferred - State	25	27	(17)
Total Deferred Expense	148	211	(21)
Investment tax credit, net - Federal	(2)	(2)	(2)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(12)	6	
Deferred - State	(28)	(17)	
Total Tax Benefit of Operating Loss Carryforwards	(40)	(11)	
Total income taxes	$ 68	$ 57	$ 79
Total income tax expense - Federal	$ 84	$ 61	$ 74
Total income tax expense - State	(16)	(4)	5
Total income taxes	$ 68	$ 57	$ 79

	2011	2010	2009
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 90	$ 67	$ 77
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	12	9	10
Amortization of investment tax credit	(2)	(2)	(2)
Federal and state tax reserves adjustments (a)	(9)	(12)	(7)
Federal and state income tax return adjustments (b) (c)	(4)	(1)	4
Depreciation not normalized (c)	(17)	(3)	(1)
Other	(2)	(1)	(2)
Total increase (decrease)	(22)	(10)	2
Total income tax expense	$ 68	$ 57	$ 79
Effective income tax rate	26.5%	29.7%	35.7%

(a) In July 2010, the U.S. Tax Court ruled in PPL Electric's favor in a dispute with the IRS, concluding that street lighting assets are depreciable for tax purposes over seven years. As a result, PPL Electric recorded a $7 million tax benefit to federal and state income tax reserves and related deferred income taxes. The IRS did not appeal this decision.

During 2011, 2010 and 2009 PPL Electric recorded a $6 million, $7 million and $6 million tax benefit to federal and state income tax reserves related to stranded cost securitization.

(b) During 2009, PPL Electric received consent from the IRS to change its method of accounting for certain expenditures for tax purposes. PPL Electric deducted the resulting IRC Sec. 481 amount on its 2008 federal income tax return and recorded a $3 million adjustment to federal and state income tax expense resulting from the reversal of prior years' state income tax benefits related to regulated depreciation.

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

	2011	2010	2009
Taxes, other than income			
State gross receipts	$ 109	$ 130	$ 187
State utility realty	(10)	5	5
State capital stock	4	2	2
Property and other	1	1	
Total	$ 104	$ 138	$ 194

See Note 6 for information on a settlement related to PURTA tax that was returned to PPL Electric customers.

(LKE)

The provision for LKE's deferred income taxes for regulated assets is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC, TRA and the FERC. The difference in the provision for deferred income taxes for regulated assets and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory liabilities" on the Balance Sheets.

Significant components of LKE's deferred income tax assets and liabilities were as follows:

	2011	2010
Deferred Tax Assets		
Net operating loss carryforward	$ 318	$ 319
Advanced coal and other tax credits	170	169
Regulatory liabilities and other	154	205
Accrued pension costs	67	69
Federal and state capital loss carryforward	5	60
Income taxes due from customers	30	30
Deferred investment tax credit (a)	56	10
Valuation allowances	(5)	(6)
Total deferred tax assets	795	856
Deferred Tax Liabilities		
Plant - net	986	789
Regulatory assets and other	205	241
Total deferred tax liabilities	1,191	1,030
Net deferred tax liability	$ 396	$ 174

(a) Changes in balance primarily relate to investment tax credits for TC2, which began dispatching electricity in January 2011. See discussion on TC2 below.

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

LKE had the following loss and tax credit carryforwards.

	2011	2010	Expiration
Loss carryforwards			
Federal net operating losses	$ 805	$ 799	2028-2029
Federal capital losses (a)		155	2011-2014
State net operating losses	999	1,039	2028 and 2030
State capital losses	118	163	2011-2014
Credit carryforwards			
Federal investment tax credit	125	125	2025-2028
Federal AMT credit	20	20	Indefinite
Federal - other	25	24	2016-2031

(a) Fully utilized against capital gains generated during 2011.

Changes in deferred tax valuation allowances were :

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
2011	$ 6		$ 1 (c)	$ 5
2010	7	$ 6 (b)	7 (d)	6
2009		7 (a)		7

(a) A valuation allowance was recorded against deferred tax assets for federal capital loss carryforwards.
(b) A valuation allowance was recorded against deferred tax assets for state capital loss carryforwards.
(c) Primarily related to the expiration of state capital loss carryforwards.
(d) Related to release of a valuation allowance associated with federal capital loss carryforwards due to the LKE acquisition by PPL.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Income Tax Expense (Benefit)				
Current - Federal	$ (71)	$ (31)	$ 33	$ 36
Current - State	6	4	11	3
Total Current Expense	(65)	(27)	44	39
Deferred - Federal	208	52	62	40
Deferred - State	16	1	5	6
Total Deferred Expense	224	53	67	46
Investment tax credit, net - Federal	(6)	(1)	(2)	(3)
Total income tax expense from continuing operations (a)	$ 153	$ 25	$ 109	$ 82
Total income tax expense - Federal	$ 131	$ 20	$ 93	$ 73
Total income tax expense - State	22	5	16	9
Total income tax expense from continuing operations (a)	$ 153	$ 25	$ 109	$ 82

(a) Excludes current and deferred federal and state tax expense (benefit) recorded to Discontinued Operations of $(1) million in 2011, $1 million for the two month period ended December 31, 2010, $(1) million for the ten month period ended October 31, 2010 and $(116) million in 2009. Excludes deferred federal and state tax expense (benefit) recorded to OCI of $(1) million in 2011, $3 million for the two month period ended December 31, 2010, $(7) million for the ten month period ended October 31, 2010 and $12 million in 2009. Also excludes deferred federal and state tax expense recorded to Regulatory assets of $1 million in 2011, $2 million for the two month period ended December 31, 2010, $8 million for the ten month period ended October 31, 2010 and $11 million in 2009.

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Reconciliation of Income Taxes				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 147	$ 25	$ 105	$ (432)
State income taxes, net of federal income tax benefit	15	2	9	7
Goodwill impairment				523
Amortization of investment tax credit	(5)		(2)	(3)
Other	(4)	(2)	(3)	(13)
Total increase (decrease)	6		4	514
Total income tax expense from continuing operations	$ 153	$ 25	$ 109	$ 82
Effective income tax rate	36.5%	35.7%	36.3%	(6.6)%

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Taxes, other than income				
Property and other	$ 37	$ 2	$ 21	$ 31
Total	$ 37	$ 2	$ 21	$ 31

(LG&E)

The provision for LG&E's deferred income taxes for regulated assets is based upon the ratemaking principles reflected in rates established by the KPSC and the FERC. The difference in the provision for deferred income taxes for regulated assets and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory liabilities" on the Balance Sheets.

Significant components of LG&E's deferred income tax assets and liabilities were as follows:

	2011	2010
Deferred Tax Assets		
Regulatory liabilities and other	$ 65	$ 86
Deferred investment tax credit (a)	17	8
Income taxes due to customers	23	25
Liabilities and other	10	10
Total deferred tax assets	115	129
Deferred Tax Liabilities		
Plant - net	462	422
Regulatory assets and other	107	108
Accrued pension costs	19	16
Total deferred tax liabilities	588	546
Net deferred tax liability	$ 473	$ 417

(a) Changes in balance primarily relate to investment tax credits for TC2, which began dispatching electricity in January 2011. See discussion on TC2 below.

LG&E expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Income Tax Expense (Benefit)				
Current - Federal	$ 12	$ (4)	$ 32	$ 26
Current - State	8	1	5	4
Total Current Expense	20	(3)	37	30
Deferred - Federal	52	12	21	14
Deferred - State	2	1	2	2
Total Deferred Expense	54	13	23	16
Investment tax credit, net - Federal	(3)		(2)	1
Total income tax expense (a)	$ 71	$ 10	$ 58	$ 47
Total income tax expense - Federal	$ 61	$ 8	$ 51	$ 41
Total income tax expense - State	10	2	7	6
Total income tax expense (a)	$ 71	$ 10	$ 58	$ 47

(a) Excludes deferred federal and state tax expense recorded to OCI of $7 million for the ten month period ended October 31, 2010 and $2 million in 2009. Also excludes deferred federal and state tax expense recorded to Regulatory assets of $2 million in 2011, $1 million for the two month period ended December 31, 2010, $6 million for the ten month period ended October 31, 2010 and $5 million in 2009.

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Reconciliation of Income Taxes				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 68	$ 10	$ 58	$ 50
State income taxes, net of federal income tax benefit	7	1	4	4
Other	(4)	(1)	(4)	(7)
Total increase (decrease)	3			(3)
Total income tax expense	$ 71	$ 10	$ 58	$ 47
Effective income tax rate	36.4%	34.5%	34.7%	33.1%

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Taxes, other than income				
Property and other	$ 18	$ 1	$ 12	$ 16
Total	$ 18	$ 1	$ 12	$ 16

(KU)

The provision for KU's deferred income taxes for regulated assets is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC, TRA and the FERC. The difference in the provision for deferred income taxes for regulated assets and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory liabilities" on the Balance Sheets.

Significant components of KU's deferred income tax assets and liabilities were as follows:

	2011	2010
Deferred Tax Assets		
Regulatory liabilities and other	$ 58	$ 92
Deferred investment tax credit (a)	39	1
Income taxes due to customers	7	5
Accrued pension costs	9	9
Liabilities and other	6	6
Total deferred tax assets	119	113
Deferred Tax Liabilities		
Plant - net	500	350
Regulatory assets and other	98	133
Total deferred tax liabilities	598	483
Net deferred tax liability	$ 479	$ 370

(a) Changes in balance primarily relate to investment tax credits for TC2, which began dispatching electricity in January 2011. See discussion on TC2 below.

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

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Income Tax Expense (Benefit)				
Current - Federal	$ (8)	$ 13	$ 46	$ (5)
Current - State	4	3	9	1
Total Current Expense	(4)	16	55	(4)
Deferred - Federal	101	4	20	43
Deferred - State	10		3	7
Total Deferred Expense	111	4	23	50
Investment tax credit, net - Federal	(3)			21
Total income tax expense (a)	$ 104	$ 20	$ 78	$ 67
Total income tax expense - Federal	$ 90	$ 17	$ 66	$ 59
Total income tax expense - State	14	3	12	8
Total income tax expense (a)	$ 104	$ 20	$ 78	$ 67

(a) Excludes deferred federal and state tax (benefit) recorded to OCI of $(1) million for the ten month period ended October 31, 2010. Also excludes deferred federal and state tax expense (benefit) recorded to Regulatory assets of $(1) million in 2011, $1 million for the two month period ended December 31, 2010, $2 million for the ten month period ended October 31, 2010 and $7 million in 2009.

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Reconciliation of Income Taxes				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 99	$ 19	$ 77	$ 70
State income taxes, net of federal income tax benefit	9	2	8	5
Other	(4)	(1)	(7)	(8)
Total increase (decrease)	5	1	1	(3)
Total income tax expense	$ 104	$ 20	$ 78	$ 67
Effective income tax rate	36.9%	36.4%	35.8%	33.5%

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Taxes, other than income				
Property and other	$ 19	$ 1	$ 9	$ 14
Total	$ 19	$ 1	$ 9	$ 14

(LKE, LG&E and KU)

In June 2006, LG&E and KU filed a joint application with the DOE requesting certification to be eligible for $125 million in investment tax credits ($24 million to LG&E and $101 million to KU) applicable to the construction of TC2. All necessary DOE and IRS approvals were subsequently received. In September 2007, LG&E and KU received an Order from the KPSC approving the accounting of the investment tax credits, which includes full depreciation basis adjustment for the amount of the credits. The income tax impacts from recording the depreciation basis adjustment and from amortizing these credits over the life of the related property began in January 2011, when LKE began dispatching electricity from TC2 to meet customer demand. In 2011, $2 million of net tax benefits were recognized for LG&E and KU.

Unrecognized Tax Benefits *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

Changes to unrecognized tax benefits were as follows:

	2011	2010
PPL		
Beginning of period	$ 251	$ 212
Additions based on tax positions of prior years	40	68
Reductions based on tax positions of prior years	(160)	(50)
Additions based on tax positions related to the current year	25	43
Reductions based on tax positions related to the current year	(4)	(2)
Settlements		(17)
Lapse of applicable statute of limitation	(10)	(8)
Acquisition of LKE		3
Effects of foreign currency translation	3	2
End of period	$ 145	$ 251
PPL Energy Supply		
Beginning of period	$ 183	$ 124
Additions based on tax positions of prior years	1	65
Reductions based on tax positions of prior years		(47)
Additions based on tax positions related to the current year		43
Reductions based on tax positions related to the current year	(1)	(3)
Settlements		(1)
Derecognize unrecognized tax benefits (a)	(155)	
Effects of foreign currency translation		2
End of period	$ 28	$ 183
PPL Electric		
Beginning of period	$ 62	$ 74
Additions based on tax positions of prior years		3
Reductions based on tax positions of prior years		(5)
Additions based on tax positions related to the current year	22	
Reductions based on tax positions related to the current year	(1)	(2)
Lapse of applicable statute of limitation	(10)	(8)
End of period	$ 73	$ 62

(a) Represents unrecognized tax benefits derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 9 for additional information on the distribution.

LKE's, LG&E's and KU's unrecognized tax benefits and changes in those unrecognized tax benefits are insignificant at December 31, 2011 and December 31, 2010.

At December 31, 2011, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase or decrease by the following amounts. For LKE, LG&E and KU, no significant changes in unrecognized tax benefits are projected over the next 12 months.

	Increase	Decrease
PPL	$ 43	$ 129
PPL Energy Supply	1	27
PPL Electric	48	63

These potential changes could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the creditability of foreign taxes, the timing and utilization of foreign tax credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

At December 31, the total unrecognized tax benefits and related indirect effects that, if recognized, would decrease the effective tax rate were as follows. The amounts for LKE, LG&E and KU were insignificant.

	2011	2010
PPL	$ 41	$ 183
PPL Energy Supply	13	167
PPL Electric	8	13

At December 31, 2011 and 2010, the following receivable (payable) balances were recorded for interest related to tax positions. The amounts for LKE, LG&E and KU were insignificant.

	2011	2010
PPL	$ (20)	$ 7
PPL Energy Supply	2	8
PPL Electric	8	3

The following interest expense (benefit) was recognized in income taxes. The amounts for LKE, LG&E and KU were insignificant.

	2011	2010	2009
PPL	$ 27	$ (39)	$ 1
PPL Energy Supply	6	(30)	(1)
PPL Electric	(5)	(8)	(2)

PPL or its subsidiaries file tax returns in five major tax jurisdictions. The income tax provisions for PPL Energy Supply, PPL Electric, LKE, LG&E and KU are calculated in accordance with an intercompany tax sharing policy which provides that taxable income be calculated as if each domestic subsidiary filed a separate consolidated return. Based on this tax sharing agreement, PPL Energy Supply or its subsidiaries indirectly or directly file tax returns in three major tax jurisdictions, PPL Electric or its subsidiaries indirectly or directly file tax returns in two major tax jurisdictions, and LKE, LG&E and KU or their subsidiaries indirectly or directly file tax returns in two major tax jurisdictions. With few exceptions, at December 31, 2011, these jurisdictions, as well as the tax years that are no longer subject to examination, were as follows:

	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
U.S. (federal) (a)	1997 and prior	1997 and prior	1997 and prior	10/31/2010 and prior	10/31/2010 and prior	10/31/2010 and prior
Pennsylvania (state)	2004 and prior	2004 and prior	2004 and prior			
Kentucky (state)	2006 and prior			2006 and prior	2006 and prior	2006 and prior
Montana (state)	2008 and prior	2008 and prior				
U.K. (foreign) (b)	2009 and prior					

(a) For LKE, LG&E and KU 2008 and 2009, as well as the ten month period ending October 31, 2010, remain open under the standard three year statute of limitations; however, the IRS has completed its audit of these periods under the Compliance Assurance Process, effectively closing them to audit adjustments. No issues remain outstanding.

(b) Through an indirect wholly owned subsidiary, PPL acquired WPD Midlands on April 1, 2011. PPL is obligated for the acquired companies' tax liability commencing with tax year 2011. The acquired companies are no longer subject to audit for 2007 and prior years.

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

PPL changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year for the Pennsylvania generation, transmission and distribution operations. The same change was made for the Montana generation operations for 2009.

In August 2011, the IRS issued Rev. Procs. 2011-42 and 2011-43. Rev. Proc. 2011-42 provides guidance regarding the use and evaluation of statistical samples and sampling estimates. Rev. Proc. 2011-43 provides a safe harbor method of determining whether the repair expenditures for electric transmission and distribution property can be currently deducted for tax purposes. If PPL adopts the safe harbor method of Rev. Proc. 2011-43, the amount of deductible versus capitalizable expenditures will likely be different from PPL's current method. PPL does not believe any resulting adjustment to unrecognized tax benefits or income tax liabilities will have a significant impact on net income.

The IRS has not issued guidance to provide a safe harbor method for repair expenditures for generation property. The IRS may assert and ultimately conclude that PPL's deduction for generation-related expenditures should be disallowed in whole or in part. PPL believes that it has provided adequate reserves for this issue.

6. Utility Rate Regulation

(PPL, PPL Electric, LKE, LG&E and KU)

As discussed in Note 1 and summarized below, PPL, PPL Electric, LKE, LG&E and KU reflect the effects of regulatory actions in the financial statements for their cost-based rate-regulated utility operations. Regulatory assets and liabilities are classified as current if, upon initial recognition, the entire amount related to that item will be recovered or refunded within a year of the balance sheet date. As such, the primary items classified as current are related to rate mechanisms that periodically adjust to account for over- or under-collections.

(PPL, LKE, LG&E and KU)

LG&E is subject to the jurisdiction of the KPSC and FERC, and KU is subject to the jurisdiction of the KPSC, FERC, VSCC and TRA.

LG&E's and KU's Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and notes payable) including certain adjustments to exclude non-regulated investments and environmental compliance costs recovered separately through the ECR mechanism. As such, regulatory assets generally earn a return.

As a result of purchase accounting requirements, certain fair value amounts related to contracts that had favorable or unfavorable terms relative to market were recorded on the Balance Sheets with an offsetting regulatory asset or liability. LG&E and KU recover in customer rates the cost of coal contracts, power purchases and emission allowances. As a result, management believes the regulatory assets and liabilities created to offset the fair value amounts at the acquisition date meet the recognition criteria established by existing accounting guidance and eliminate any rate making impact of the fair value adjustments. LG&E's and KU's customer rates will continue to reflect the original contracted prices for these contracts.

(PPL, LKE and KU)

KU's Virginia base rates are calculated based on a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities, except the levelized fuel factor, are excluded from the return on rate base utilized in the calculation of Virginia base rates; therefore, no return is earned on the related assets.

KU's rates to municipal customers for wholesale requirements are calculated based on annual updates to a rate formula that utilizes a return on rate base (net utility plant plus working capital less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates; therefore, no return is earned on the related assets.

(PPL and PPL Electric)

PPL Electric's distribution base rates are calculated based on a return on rate base (net utility plant plus a cash working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions). PPL Electric's transmission revenues are billed in accordance with a FERC tariff that allows for recovery of transmission costs incurred, a return on transmission-related plant and an automatic annual update. See "Transmission Formula Rate" below for additional information on this tariff. All regulatory assets and liabilities are excluded from distribution and transmission return on investment calculations; therefore, generally no return is earned on PPL Electric's regulatory assets.

(PPL, PPL Electric, LKE, LG&E and KU)

The following tables provide information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

	PPL		PPL Electric	
	2011	2010	2011	2010
Current Regulatory Assets:				
Generation supply charge (a)		$ 45		$ 45
Universal service rider		10		10
Gas supply clause	$ 6	4		
Fuel adjustment clause	3	3		
Other		23		8
Total current regulatory assets	$ 9	$ 85		$ 63
Noncurrent Regulatory Assets:				
Defined benefit plans	$ 615	$ 592	$ 276	$ 262
Taxes recoverable through future rates	289	254	289	254
Storm costs	154	129	31	7
Unamortized loss on debt	110	61	77	27
Interest rate swaps	69	43		
Accumulated cost of removal of utility plant (b)	53	35	53	35
Coal contracts (c)	11	22		
AROs	18	9		
Other	30	35	3	7
Total noncurrent regulatory assets	$ 1,349	$ 1,180	$ 729	$ 592
Current Regulatory Liabilities:				
Coal contracts (c)		$ 46		
Generation supply charge (a)	$ 42		$ 42	
ECR	7	12		
PURTA tax		10		$ 10
Gas supply clause	6	9		
Transmission service charge	2	8	2	8
Other	16	24	9	
Total current regulatory liabilities	$ 73	$ 109	$ 53	$ 18
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	$ 651	$ 623		
Coal contracts (c)	180	213		
Power purchase agreement - OVEC (c)	116	124		
Net deferred tax assets	39	40		
Act 129 compliance rider	7	14	$ 7	$ 14
Defined benefit plans	9	10		
Other	8	7		
Total noncurrent regulatory liabilities	$ 1,010	$ 1,031	$ 7	$ 14

	LKE		LG&E		KU	
	2011	2010	2011	2010	2011	2010
Current Regulatory Assets:						
ECR		$ 5		$ 5		
Coal contracts (c)		5		1		$ 4
Gas supply clause	$ 6	4	$ 6	4		
Fuel adjustment clause	3	3	3	3		
Virginia fuel factor		5				5
Total current regulatory assets	$ 9	$ 22	$ 9	$ 13		$ 9

	LKE		LG&E		KU	
	2011	2010	2011	2010	2011	2010
Noncurrent Regulatory Assets:						
Defined benefit plans	$ 339	$ 330	$ 225	$ 213	$ 114	$ 117
Storm costs	123	122	66	65	57	57
Unamortized loss on debt	33	34	21	22	12	12
Interest rate swaps	69	43	69	43		
Coal contracts (c)	11	22	5	8	6	14
AROs	18	9	11	7	7	2
Other	27	28	6	9	21	19
Total noncurrent regulatory assets	$ 620	$ 588	$ 403	$ 367	$ 217	$ 221
Current Regulatory Liabilities:						
Coal contracts (c)		$ 46		$ 31		$ 15
ECR	$ 7	12			$ 7	12
Gas supply clause	6	9	$ 6	9		
Other	7	24	4	11	3	13
Total current regulatory liabilities	$ 20	$ 91	$ 10	$ 51	$ 10	$ 40
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	$ 651	$ 623	$ 286	$ 275	$ 365	$ 348
Coal contracts (c)	180	213	78	87	102	126
Power purchase agreement - OVEC (c)	116	124	80	86	36	38
Net deferred tax assets	39	40	31	34	8	6
Defined benefit plans	9	10			9	10
Other	8	7	3	1	5	6
Total noncurrent regulatory liabilities	$ 1,003	$ 1,017	$ 478	$ 483	$ 525	$ 534

(a) PPL Electric's generation supply charge recovery mechanism moved from an undercollected status at December 31, 2010 to an overcollected status at December 31, 2011, reflecting the impacts of changes in customer billing cycles, the timing of rate reconciliation filings, the levels of customers choosing alternative energy suppliers and other factors. Because customer rates are designed to collect the costs of PPL Electric's energy purchases to meet its PLR requirements, there is minimal impact on earnings.

(b) The December 31, 2010 balance of accumulated cost of removal of utility plant was reclassified from "Accumulated depreciation - regulated utility plant" to noncurrent "Regulatory assets" on the Balance Sheets. These costs will continue to be included in future rate proceedings.

(c) These regulatory assets and liabilities were recorded as offsets to certain intangible assets and liabilities that were recorded at fair value upon the acquisition of LKE.

Regulatory Assets and Liabilities

Following is an overview of selected regulatory assets and liabilities detailed in the preceding tables. Specific developments with respect to certain of these regulatory assets and liabilities are discussed in "Regulatory Matters."

(PPL and PPL Electric)

Generation Supply Charge

The generation supply charge is a cost recovery mechanism that permits PPL Electric to recover costs incurred to provide generation supply to PLR customers who receive basic generation supply service. The recovery includes charges for generation supply (energy and capacity and ancillary services), as well as administration of the acquisition process. In addition, the generation supply charge contains a reconciliation mechanism whereby any over- or under-recovery from prior quarters is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent quarter.

Universal Service Rider (USR)

PPL Electric's distribution rates permit recovery of applicable costs associated with the universal service programs provided to PPL Electric's residential customers. Universal service programs include low-income programs, such as OnTrack and Winter Relief Assistance Program (WRAP). OnTrack is a special payment program for low-income households within the federal poverty level who have difficulty paying their electric bills. This program is funded by residential customers and administered by community-based organizations. Customers who participate in OnTrack receive assistance in the form of reduced payment arrangements, protection against termination of electric service and referrals to other community programs and services. The WRAP program reduces electric bills and improves living comfort for low-income customers by providing services such as weatherization measures and energy education services. The USR is applied to distribution charges for each customer who receives distribution service under PPL Electric's residential service rate schedules. The USR contains a reconciliation mechanism whereby any over- or under-recovery from the current year is refunded to or recovered from residential customers through the adjustment factor determined for the subsequent year.

Taxes Recoverable through Future Rates

Taxes recoverable through future rates represent the portion of future income taxes that will be recovered through future rates based upon established regulatory practices. Accordingly, this regulatory asset is recognized when the offsetting deferred tax liability is recognized. For general-purpose financial reporting, this regulatory asset and the deferred tax liability are not offset; rather, each is displayed separately. This regulatory asset is expected to be recovered over the period that the underlying book-tax timing differences reverse and the actual cash taxes are incurred.

PURTA Tax

In December 2009, PPL Electric reached a settlement with the Pennsylvania Department of Revenue related to the appeal of its 1997 PURTA tax assessments that resulted in a reduction in PURTA tax. Substantially all of the regulatory liability was refunded to customers in 2011 pursuant to PUC regulations.

Act 129 Compliance Rider

In compliance with Pennsylvania's Act 129 of 2008 and implementing regulations, PPL Electric filed its energy efficiency and conservation plan in July 2009. The plan was approved by PUC Order in October 2009. The Order allows PPL Electric to recover the maximum $250 million cost of the program ratably over the life of the plan, from January 1, 2010 through May 31, 2013. The plan includes programs intended to reduce electricity consumption. The recoverable costs include direct and indirect charges, including design and development costs, general and administrative costs and applicable state evaluator costs. The rates are applied to customers who receive distribution service through the Act 129 Compliance Rider. The actual program costs are reconcilable, and any over- or under-recovery from customers will be refunded or collected at the end of the program. See below under "Regulatory Matters - Pennsylvania Activities" for additional information on Act 129.

Transmission Service Charge (TSC)

PPL Electric is charged by PJM for transmission service-related costs applicable to its PLR customers. PPL Electric passes these costs on to customers, who receive basic generation supply service through the PUC-approved TSC cost recovery mechanism. The TSC contains a reconciliation mechanism whereby any over- or under-recovery from customers is either refunded to, or recovered from, customers through the adjustment factor determined for the subsequent year.

(PPL, PPL Electric, LKE, LG&E and KU)

Defined Benefit Plans

Recoverable costs of defined benefit plans represent the portion of unrecognized transition obligation, prior service cost and net actuarial losses that will be recovered in defined benefit plans expense through future base rates based upon established regulatory practices. These regulatory assets and liabilities are adjusted at least annually or whenever the funded status of defined benefit plans is re-measured. Of the regulatory asset and liability balances recorded, the following costs of $44 million for PPL, $13 million for PPL Electric, $31 million for LKE, $21 million for LG&E and $10 million for KU are expected to be amortized into net periodic defined benefit costs in 2012. All costs will be amortized over the average service lives of plan participants.

Storm Costs

PPL Electric, LG&E and KU have the ability to request from the PUC, KPSC and VSCC the authority to treat expenses related to specific extraordinary storms as a regulatory asset and defer and amortize such costs for regulatory accounting and reporting purposes. Once such authority is granted, PPL Electric, LG&E and KU can request recovery of those expenses in a base rate case.

Unamortized Loss on Debt

Unamortized loss on reacquired debt represents losses on long-term debt reacquired or redeemed that have been deferred and will be amortized and recovered over either the original life of the extinguished debt or the life of the replacement debt (in the case of refinancing). Such costs are being amortized through 2029 for PPL Electric. Such costs are being amortized through 2035 for LG&E and 2036 for PPL, LKE and KU.

As further discussed in Note 7, in July 2011 PPL Electric redeemed Senior Secured Bonds for $458 million, plus accrued interest. The redemption premium and the unamortized financing costs of $59 million were recorded as a regulatory asset and will be amortized over the life of the replacement debt.

Accumulated Cost of Removal

LG&E and KU accrue for costs of removal through depreciation expense with an offsetting credit to a regulatory liability. The regulatory liability is relieved as costs are incurred. See Note 1 for additional information.

PPL Electric does not accrue for costs of removal. When costs of removal are incurred, PPL Electric records the deferral of costs as a regulatory asset. Such deferral is included in rates and amortized over the subsequent five-year period.

(PPL, LKE, LG&E and KU)

ECR

Kentucky law permits LG&E and KU to recover the costs, including a return of operating expenses and a return of and on capital invested, of complying with the Federal Clean Air Act and those federal, state or local environmental requirements which apply to coal combustion wastes and by-products from coal-fired electric generating facilities. The KPSC requires reviews of the past operations of the environmental surcharge for six-month and two-year billing periods to evaluate the related charges, credits and rates of return, as well as to provide for the roll-in of ECR amounts to base rates each two-year period. The ECR regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism and is recovered within 12 months. LG&E and KU are authorized to receive a 10.63% return on equity for the 2005, 2006 and 2009 compliance plans and a 10.10% return on projects associated with the 2011 compliance plan.

Coal Contracts

As a result of purchase accounting associated with PPL's acquisition of LKE, LG&E's and KU's coal contracts were recorded at fair value on the Balance Sheets with offsets to regulatory assets for those contracts with unfavorable terms relative to current market prices and offsets to regulatory liabilities for those contracts with favorable terms relative to current market prices. These regulatory assets and liabilities are being amortized over the same terms as the related contracts, which expire at various times through 2016.

Gas Supply Clause

LG&E's natural gas rates contain a gas supply clause, whereby the expected cost of natural gas supply and variances between actual and expected costs from prior periods are adjusted quarterly in LG&E's rates, subject to approval by the KPSC. The gas supply clause includes a separate natural gas procurement incentive mechanism, a performance-based rate, which allows LG&E's rates to be adjusted annually to share variances between actual costs and market indices between the shareholders and the customers during each performance-based rate year (12 months ending October 31). The regulatory assets or liabilities represent the total amounts that have been under- or over-recovered due to timing or adjustments to the mechanisms and are recovered within 18 months.

Fuel Adjustments

LG&E's and KU's retail electric rates contain a fuel adjustment clause, whereby variances in the cost of fuel for electric generation, including transportation costs, from the costs embedded in base rates are adjusted in LG&E's and KU's rates. The KPSC requires public hearings at six-month intervals to examine past fuel adjustments and at two-year intervals to review past operations of the fuel clause and, to the extent appropriate, reestablish the fuel charge included in base rates.

KU also employs a levelized fuel factor mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The Virginia levelized fuel factor allows fuel recovery based on projected fuel costs for the coming year plus an adjustment for any under- or over-recovery of fuel expenses from the prior year. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are recovered within 12 months.

Interest Rate Swaps

(PPL, LKE and LG&E)

Because realized amounts associated with LG&E's interest rate swaps, including a terminated swap contract, are recoverable through rates based on an Order from the KPSC, LG&E's unrealized gains and losses are recorded as a regulatory asset or liability until they are realized as interest expense. Interest expense from existing swaps is realized and recovered over the terms of the associated debt, which matures through 2033. Amortization of the gain/loss related to the terminated swap contract is recovered through 2035 as approved by the KPSC.

(LKE and LG&E)

In the third quarter of 2010, LG&E recorded a pre-tax gain to reverse previously recorded losses of $21 million and $9 million to reflect the reclassification of its ineffective swaps and terminated swap to regulatory assets based on an Order from the KPSC in the 2010 rate case whereby the cost of LG&E's terminated swap was allowed to be recovered in base rates. Previously, gains and losses on interest rate swaps designated as effective cash flow hedges were recorded within other comprehensive income and common equity. The gains and losses on the ineffective portion of interest rate swaps designated as cash flow hedges were recorded to earnings monthly, as was the entire change in the market value of the ineffective swaps.

(PPL, LKE, LG&E and KU)

AROs

As noted in Note 1, the accretion and depreciation related to LG&E's and KU's AROs are offset with a regulatory credit on the income statement, such that there is no earnings impact. When an asset with an ARO is retired, the related ARO regulatory asset created by the regulatory credit is offset against the associated regulatory liability, PP&E and ARO liability.

DSM

DSM consists of energy efficiency programs which are intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information to become better managers of their energy usage and prepare for potential future legislation governing energy efficiency. LG&E's and KU's rates contain a DSM rate mechanism that provides for concurrent recovery of DSM costs and also provides an incentive for implementing DSM programs. The provision also allows LG&E and KU to recover revenues from lost sales associated with the DSM programs up to the earlier of three years or implementation of new base rates which reflect that load reduction. In addition, with the KPSC Order issued in November 2011, the DSM mechanism now includes a provision to earn a return of and on capital investment for DSM programs. The regulatory assets or liabilities represent the total amounts that have been under- or over-recovered due to timing or adjustments to the mechanism.

Power Purchase Agreement - OVEC

As a result of purchase accounting associated with PPL's acquisition of LKE, LG&E's and KU's fair values of the OVEC power purchase agreement were recorded on the balance sheets with offsets to regulatory liabilities. The regulatory liabilities are being amortized using the units-of-production method until March 2026, the expiration date of the agreement at the date of the acquisition, and have no impact on rate making.

Regulatory Liability associated with Net Deferred Tax Assets

LG&E's and KU's regulatory liabilities associated with net deferred tax assets represent the future revenue impact from the reversal of deferred income taxes required primarily for unamortized investment tax credits. These regulatory liabilities are recognized when the offsetting deferred tax assets are recognized. For general-purpose financial reporting, these regulatory liabilities and the deferred tax assets are not offset; rather, each is displayed separately.

Regulatory Matters

Kentucky Activities *(PPL, LKE, LG&E and KU)*

Environmental Upgrades

In order to achieve compliance with new and pending federal EPA regulations including the CSAPR, National Ambient Air Quality Standards and MATS, in June 2011, LG&E and KU filed ECR plans with the KPSC requesting approval to install environmental upgrades for certain of their coal-fired plants and for recovery of the expected $2.5 billion in associated capital costs, as well as operating expenses incurred. The ECR plans detailed upgrades that will be made to certain of their coal-fired generating plants to continue to be compliant with EPA regulations. LG&E requested $1.4 billion to modernize the sulfur dioxide scrubbers at the Mill Creek generating plant as well as install fabric-filter baghouse systems for increased particulate and mercury control on all units at the Mill Creek generating plant and on Unit 1 at the Trimble County generating plant. KU requested $1.1 billion to upgrade fabric-filter baghouse systems for increased particulate and mercury control on all units at the E.W. Brown and Ghent generating plants and to convert a wet storage facility to a dry landfill at the E.W. Brown generating plant.

In November 2011, LG&E and KU filed a unanimous settlement agreement, stipulation and recommendation with the KPSC. In December 2011, LG&E and KU received KPSC approval in their proceedings relating to the ECR plans. The KPSC Order approved the terms of the November 2011 settlement agreement entered into between LG&E and KU and the parties to the ECR proceedings. The KPSC Order authorized the installation of environmental upgrades at certain plants during 2012-2016 representing approximate capital costs of $1.4 billion at LG&E and $900 million at KU. In connection with the approved projects, the KPSC Order allowed recovery through the ECR rate mechanism of the capital costs and operating expenses of the projects and granted CPCNs for their construction. The KPSC Order also confirmed an existing 10.63% authorized return on equity for projects remaining from earlier ECR plans and provided for an authorized return on equity of 10.10% for the approved projects in the 2011 ECR proceedings. The KPSC Order noted KU's consent to defer the requested approval for certain environmental upgrades at its E.W. Brown generating plant, which represented approximately $200 million in capital costs. KU retained the right to operate and dispatch the E.W. Brown generating plant in accordance with applicable environmental standards and the right to request approval of the deferred projects and related costs in future regulatory proceedings. See Note 15 for additional information.

IRP

IRP regulations in Kentucky require major utilities to make triennial IRP filings with the KPSC. In April 2011, LG&E and KU filed their 2011 joint IRP with the KPSC. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information. In May 2011, the KPSC issued a procedural schedule and data discovery concluded during the fourth quarter. The IRP assumes approximately 500 MW of peak demand reductions by 2017 through existing or expanded DSM or energy efficiency programs. Implementation of the major findings of the IRP is subject to further analysis and decision-making and further regulatory approvals. LG&E and KU are awaiting the KPSC Staff report, which will close this proceeding.

CPCN Filing

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run plant site. LG&E will own a 22% undivided interest, and KU will own a 78% undivided interest in the new NGCC. In addition, LG&E and KU also requested approval to purchase the Bluegrass CTs which are expected to provide up to 495 MW of peak generation supply. LG&E will own a 69% undivided interest, and KU will own a 31% undivided interest in the purchased assets. In conjunction with these developments, at the end of 2015, LG&E and KU anticipate retiring three coal-fired generating units at LG&E's Cane Run plant and also one coal-fired generating unit at KU's Tyrone plant and two at KU's Green River plant. These generating units represent 797 MW of combined summer capacity.

LG&E and KU anticipate that the NGCC construction and the acquisition of the Bluegrass CTs could require up to $800 million (comprised of up to $300 million for LG&E and up to $500 million for KU) in capital costs including related transmission projects. Formal requests for recovery of the costs associated with the NGCC construction and the acquisition of the Bluegrass CTs were not included in the CPCN filing with the KPSC but are expected to be included in future rate proceedings. The KPSC issued an Order on the procedural schedule in the CPCN filing that has discovery scheduled through early February 2012. A KPSC order on the CPCN filing is anticipated in the second quarter of 2012.

PPL's Acquisition of LKE

In September 2010, the KPSC approved a settlement agreement among PPL and all of the intervening parties to PPL's joint application to the KPSC for approval of its acquisition of ownership and control of LKE, LG&E and KU. In the settlement agreement, the parties agreed that LG&E and KU would commit that no base rate increases would take effect before January 1, 2013. Under the terms of the settlement, LG&E and KU retain the right to seek KPSC approval for the deferral of "extraordinary and uncontrollable costs," such as significant storm restoration costs, if incurred. Additionally, interim rate adjustments will continue to be permissible during that period for existing recovery mechanisms such as the ECR and DSM.

In connection with the approval of PPL's acquisition of LKE, LG&E and KU agreed to implement the Acquisition Savings Sharing Deferral (ASSD) methodology whereby LG&E's and KU's adjusted jurisdictional revenues, expenses, and net operating income are calculated each year. If LG&E's or KU's actual earned rate of return on common equity is in excess of 10.75%, fifty percent of the excess amount will be deferred as a regulatory liability and ultimately returned to customers. The first ASSD filing will be made by April 1, 2012 based on the 2011 calendar year. Based upon 2011 earnings and their current estimates of the outcome of an ASSD filing in 2012, LG&E and KU have not recognized any impact of the ASSD in the financial statements as of December 31, 2011. The ASSD methodology for each of LG&E's and KU's utility operations will terminate on the earlier of the end of 2015 or the first day of the calendar year during which new base rates go into effect.

Independent Transmission Operators

LG&E and KU operate under a FERC-approved open access transmission tariff. LG&E and KU contract with the Tennessee Valley Authority, to act as their transmission reliability coordinator, and Southwest Power Pool, Inc. (SPP), to function as their independent transmission operator, pursuant to FERC requirements. The contract with SPP expires on August 31, 2012. LG&E and KU have received FERC approval to transfer from SPP to TranServ International, Inc. as their independent transmission operator beginning September 1, 2012. Approval from the KPSC is required, and an application requesting approval was filed in January 2012.

Storm Costs

In August 2011, a strong storm hit LG&E's service area causing significant damage and widespread outages for approximately 139,000 customers. LG&E filed an application with the KPSC in September 2011 requesting approval of a regulatory asset recorded to defer, for future recovery, $8 million in incremental operation and maintenance expenses related to the storm restoration. An Order was received in December 2011 granting regulatory accounting treatment, while recovery of the regulatory asset will be determined within the next base rate case.

In September 2009, the KPSC approved the deferral of $44 million and $57 million for LG&E and KU of costs associated with a severe ice storm that occurred in January 2009 and a wind storm that occurred in February 2009. Additionally, in December 2008, the KPSC approved the deferral of $24 million and $2 million for LG&E and KU of costs associated with high winds from the remnants of Hurricane Ike in September 2008. LG&E and KU received approval in their 2010 base rate cases to recover these regulatory assets over a ten-year amortization period ending July 2020.

DSM/Energy Efficiency

In April 2011, LG&E and KU filed a DSM application to expand existing energy efficiency programs and implement new energy efficiency programs. Discovery and evidentiary phases concluded in September 2011. In November 2011, the KPSC approved the application as filed. The new rates were effective December 30, 2011.

Virginia Activities *(PPL, LKE and KU)*

IRP

Pursuant to a December 2008 Order, KU filed the 2011 joint IRP with the VSCC in September 2011, with certain supplemental information as required by this Order. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information and assumes approximately 500 MW of peak demand reductions by 2017 through existing or expanded DSM or energy efficiency programs. Implementation of the major findings of the IRP is subject to further analysis and decision-making and further regulatory approvals.

Virginia Fuel Factor

In February 2011, KU filed an application with the VSCC seeking approval of an increase in its fuel cost factor beginning with service rendered in April 2011. In March 2011, a hearing was held on KU's requested fuel factor, and an Order was issued approving a revised fuel factor to be in effect beginning with service rendered on and after April 1, 2011, with recovery of the regulatory asset for prior period under-recoveries over a three-year amortization period.

Storm Costs

In December 2009, a major snowstorm hit KU's Virginia service area causing approximately 30,000 customer outages. During the normal 2009 Virginia Annual Information Filing (AIF), KU requested that the VSCC establish a regulatory asset and defer for future recovery $6 million in incremental operation and maintenance expenses related to the storm restoration. In March 2011, the VSCC Staff issued its report on KU's 2009 AIF stating that it considered this storm damage to be extraordinary, non-recurring and material to KU. The Staff report also recommended establishing a regulatory asset for these costs, with recovery over a five-year period upon approval in the next base rate case. In March 2011, a regulatory asset of $6 million was established for actual costs incurred. In June 2011, the VSCC issued an Order approving the recommendations contained in the Staff report, and KU began recovering these costs over a five-year amortization period ending October 2016.

Pennsylvania Activities *(PPL and PPL Electric)*

Act 129

Act 129 requires Pennsylvania Electric Distribution Companies (EDCs) to meet specified goals for reduction in customer electricity usage and peak demand by specified dates. EDCs not meeting the requirements of Act 129 are exposed to significant penalties.

Under Act 129, EDCs must file an energy efficiency and conservation plan (EE&C Plan) with the PUC and contract with conservation service providers to implement all or a portion of the EE&C Plan. Act 129 requires EDCs to cause reduced overall electricity consumption of 1.0% by May 2011 and 3.0% by May 2013 and reduced peak demand of 4.5% for the 100 hours of highest demand by May 2013 (which will be measured during the June 2012 through September 2012 period). To date, PPL Electric has met the 2011 requirement, subject to the PUC's verification. EDCs will be able to recover the costs (capped at 2% of the EDC's 2006 revenue) of implementing their EE&C Plans. In October 2009, the PUC approved PPL Electric's EE&C Plan. The plan includes 14 programs, all of which are voluntary for customers. The plan includes a proposed rate mechanism for recovery of all costs incurred (up to a maximum of $250 million) by PPL Electric to implement the plan. Such costs include direct and indirect charges, including design, general and administrative costs and applicable state evaluator costs, and are being recovered over the period from January 1, 2010 through May 31, 2013. The costs are recovered through the Act 129 Compliance Rider from all customers who receive distribution service. The program contains a reconciliation mechanism whereby any over- or under-recovery from customers will be refunded or collected at the end of the program. In September 2010, PPL Electric filed its Program Year 1 Annual Report and Process Evaluation Report. PPL Electric also filed a petition requesting permission to modify two components of its EE&C Plan. The PUC issued its Final Order in January 2011, approving the changes proposed by PPL Electric and directing PPL Electric to re-file its plan to reflect all changes made since its initial approval. In February 2011, PPL Electric filed the changes to its plan and in May 2011, the PUC approved those changes. PPL Electric filed its Program Year 2 Annual Report and Process Evaluation Report in November 2011. In February 2012, PPL Electric filed a petition with the PUC requesting permission to implement additional changes to its EE&C Plan. Other parties have 30 days to file comments to this petition; PPL Electric has 20 days to file reply comments.

Act 129 also requires the Default Service Provider (DSP) to provide electric generation supply service to customers pursuant to a PUC-approved competitive procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (4 to 20 years), with long-term contracts limited to 25% of the load unless otherwise approved by the PUC. The DSP will be able to recover the costs associated with a competitive procurement plan.

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

Smart Meter Rider

Act 129 also requires installation of smart meters for new construction, upon the request of consumers and at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs will be able to recover the costs of providing smart metering technology. In August 2009, PPL Electric filed its proposed smart meter technology procurement and installation plan with the PUC. All of PPL Electric's metered customers currently have smart meters installed at their service locations. PPL Electric's current advanced metering technology generally satisfies the requirements of Act 129 and does not need to be replaced. In June 2010, the PUC entered its order approving PPL Electric's smart meter plan with several modifications. In compliance with the Order, in the third quarter of 2010, PPL Electric submitted a revised plan with a cost estimate of $38 million to be incurred over a five-year period, beginning in 2009, and filed its Section 1307(e) cost recovery mechanism, the Smart Meter Rider (SMR) to recover these costs beginning January 1, 2011. In December 2010, the PUC approved PPL Electric's SMR which reflects the costs of its smart meter program plus a return on its Smart Meter investments. The SMR, which became effective January 1, 2011, contains a reconciliation mechanism whereby any over- or under-recovery from customers is either refunded to or collected from customers in the subsequent year. In August 2011, PPL Electric filed with the PUC an annual report describing the actions it is taking under its Smart Meter plan in 2011 and its planned actions for 2012. PPL Electric also submitted revised SMR charges which became effective January 1, 2012.

PUC Investigation of Retail Market

In April 2011, the PUC opened an investigation of Pennsylvania's retail electricity market to be conducted in two phases. Phase one addressed the status of the current retail market and explored potential changes. Questions promulgated by the PUC for this phase of the investigation focused primarily on default service issues. In June 2011, interested parties filed comments and the PUC held a hearing in this phase of the investigation. In July 2011, the PUC entered an order initiating phase two of the investigation to study how best to address issues identified by the PUC as being most relevant to improving the current retail electricity market. The PUC issued a tentative order in October 2011 addressing issues associated with the timing and various other details of EDCs' default service procurement plans. Parties filed comments to that tentative order. The PUC also held a hearing in this phase of the investigation in November 2011. In December 2011, the PUC issued a final order providing guidance to EDCs on the design of their next default service procurement plan filings. In December 2011, the PUC also issued a tentative order proposing an intermediate work plan to address issues raised in the investigation. Parties filed comments to that tentative order. PPL Electric cannot predict the outcome of the investigation.

Legislation - Regulatory Procedures and Mechanisms

In June 2011, the Pennsylvania House Consumer Affairs Committee approved legislation that would authorize the PUC to approve regulatory procedures and mechanisms to provide for more timely recovery of a utility's costs. Such alternative ratemaking procedures and mechanisms are important to PPL Electric as it begins a period of significant increasing capital investment related to the asset optimization program focused on the replacement of aging distribution assets. Those procedures and mechanisms include, but are not limited to, the use of a fully projected future test year and an automatic adjustment clause to recover certain capital costs and related operating expenses. In October 2011, the legislation was passed by the Pennsylvania House of Representatives. In January 2012, the Senate Consumer Affairs Committee adopted significant amendments to the legislation. The amended legislation authorizes the PUC to approve only two specific ratemaking mechanisms -- a fully projected future test year and a distribution system improvements charge. In addition, the amendments impose a number of conditions on the use of such a charge. In January 2012, the Pennsylvania Senate passed the amended legislation and in February 2012, the Pennsylvania House agreed to those amendments. The Governor signed the bill (Act 11 of 2012), which will become effective April 14, 2012. Utilities cannot file a petition with the PUC before January 1, 2013 requesting permission to establish the charge.

Storm Recovery

PPL Electric experienced several PUC-reportable storms during 2011 resulting in total restoration costs of $84 million, of which $54 million were recorded in "Other operation and maintenance" on the Statement of Income. Although PPL Electric has storm insurance with a PPL affiliate, the costs associated with the unusually high number of PUC-reportable storms has exceeded policy limits. Probable insurance recoveries recorded during 2011 were $26.5 million, of which $16 million were included in "Other operation and maintenance" on the Statement of Income. In December 2011, PPL Electric received orders from the PUC granting permission to defer qualifying storm costs in excess of insurance recoveries associated with Hurricane Irene and a late October snowstorm. Based on the PUC orders, PPL Electric recorded a regulatory asset of $25 million in December 2011. PPL Electric will seek recovery of these costs in its next general base rate proceeding.

In 2007, based on PUC approval, a regulatory asset of $12 million was established for actual costs incurred associated with severe ice storms that occurred in January 2005. Recovery began in January 2008 and will continue through August 2015.

Federal Matters

FERC Formula Rates (PPL and PPL Electric)

Transmission rates are regulated by the FERC. PPL Electric's transmission revenues are billed in accordance with a FERC-approved PJM open access transmission tariff that utilizes a formula-based rate recovery mechanism. The tariff allows for recovery of actual transmission costs incurred, a return on transmission plant placed in service and an incentive return, including a return on construction work in progress, on the Susquehanna-Roseland transmission line project. The tariff utilizes actual costs from the most recent FERC Form No. 1 to set the rate for the current year billing to customers, including a true-up to adjust for actual costs in the subsequent year's FERC Form No. 1. The annual update of the rate is implemented automatically without requiring specific approval by the FERC before going into effect. PPL Electric accrues or defers revenues applicable to any estimated true-up of this formula-based rate.

In May 2010, PPL Electric initiated the 2010 Annual Update of its formula rate. In November 2010, a group of municipal customers taking transmission service in PPL Electric's transmission zone filed a preliminary challenge to the update and, in December 2010, filed a formal challenge. In August 2011, the FERC issued an order substantially rejecting the formal challenge and accepting PPL Electric's 2010 Annual Update. The group of municipal customers filed a request for rehearing of that order.

In June 2011, PPL Electric initiated the 2011 Annual Update of its formula rate. In October 2011, the group of municipal customers filed a preliminary challenge to the update. PPL Electric was not able to resolve the issues that were raised in this preliminary challenge and the group of municipal customers filed a formal challenge. PPL Electric filed a response to that formal challenge and the group of municipal customers filed an answer to that response. PPL Electric cannot predict the outcome of these two proceedings, which remain pending before the FERC.

In March 2012, PPL Electric plans to file a request with the FERC seeking recovery, over a 34-year period beginning in June 2012, of its unrecovered regulatory asset related to the deferred state tax liability that existed at the time of the transition from the flow-through treatment of state income taxes to full normalization. This change in tax treatment occurred in 2008 as a result of prior FERC initiatives that transferred regulatory jurisdiction of certain transmission assets from the PUC to FERC. A regulatory asset of $51 million related to this transition, classified as taxes recoverable through future rates, is included in "Other Noncurrent Assets - Regulatory assets" on the balance sheet. PPL Electric believes recoverability of this regulatory asset is probable based on FERC precedent in similar cases; however, it is reasonably possible that the FERC may limit the recovery of all or part of the claimed asset.

International Activities *(PPL)*

U.K. Overhead Electricity Networks

In 2002, for safety reasons, the U.K. Government issued guidance that low voltage overhead electricity networks within three meters horizontal clearance of a building should either be insulated or relocated. This imposed a retroactive requirement on existing assets that were built with lower clearances. In 2008, the U.K. Government determined that the U.K. electricity network should comply with the issued guidance. WPD estimates that the cost of compliance will be approximately $120 million. The projected expenditures in the current regulatory period, April 1, 2010 through March 31, 2015, have been included in allowed revenues, and it is expected that expenditures beyond this five-year period (including WPD Midlands expenditures) will also be included in allowed revenues. The U.K. Government has determined that WPD (South Wales) and WPD Midlands should comply by 2015 and WPD (South West) should comply by 2018.

To improve network reliability, the U.K. Government amended a regulation relating to safety and continuity of supply by adding an obligation which broadly requires, beginning January 31, 2009, network operators to implement a risk-based program to clear trees away from overhead lines. WPD estimates that the cost of compliance will be approximately $198 million over a 25-year period. The projected expenditures in the current regulatory period have been included in allowed revenues under the current price control review, and it is expected that expenditures beyond this five-year period will also be included in allowed revenues.

In addition to the above, WPD Midlands was not in compliance with earlier regulations pertaining to overhead line clearances as of the acquisition date. WPD Midlands expects to incur costs through 2015 to comply with these requirements that are not included in allowed revenues under the current price control review. In 2011, WPD Midlands recorded a liability of $68 million associated with meeting these requirements as an opening balance sheet adjustment in accordance with accounting guidance for business combinations. The balance at December 31, 2011 was $57 million.

Ofgem Review of Line Loss Calculation

WPD has a $170 million liability recorded at December 31, 2011, calculated in accordance with an accepted methodology, related to the close-out of line losses for the prior price control period, DPCR4. Ofgem is currently consulting on the methodology used to calculate the final line loss incentive/penalty for the DPCR4. In October 2011, Ofgem issued a consultation paper citing two potential changes to the methodology, both of which would result in a reduction of the liability; however, it is uncertain at this time whether any changes will be made. Ofgem is expected to make a decision before the end of 2012.

New U.K. Pricing Model

The electricity distribution subsidiaries of WPD operate under distribution licenses and price controls granted and set by Ofgem for each of the distribution subsidiaries. The price control formula that governs allowed revenue is designed to provide economic incentives to minimize operating, capital and financing costs. The price control formula is normally determined every five years. Ofgem completed its review in December 2009 that became effective April 1, 2010 and will continue through March 31, 2015.

In October 2010, Ofgem announced a pricing model that will be effective for the U.K. electricity distribution sector beginning April 2015. The model, known as RIIO (Revenues = Incentives + Innovation + Outputs), is intended to encourage investment in regulated infrastructure. Key components of the model are: an extension of the price review period from five to eight years, increased emphasis on outputs and incentives, enhanced stakeholder engagement including network customers, a stronger incentive framework to encourage more efficient investment and innovation, expansion of the current Low Carbon Network Fund to stimulate innovation and continued use of a single weighted average cost of capital. At this time, management does not expect the impact of this pricing model to be significant to WPD's operating results.

7. Financing Activities

Credit Arrangements and Short-term Debt

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Credit facilities are maintained to enhance liquidity and provide credit support, and as a backstop to commercial paper programs, when necessary. The following credit facilities were in place at:

	December 31, 2011					December 31, 2010	
	Expiration Date	Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backup	Unused Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backup
PPL							
WPD Credit Facilities							
PPL WW Syndicated Credit Facility (b)	Jan. 2013	£ 150	£ 111	n/a	£ 39	£ 115	n/a
WPD (South West) Syndicated Credit Facility (c)	July 2012	210		n/a	210		n/a
WPD (East Midlands) Syndicated Credit Facility (d)	Apr. 2016	300		£ 70	230	n/a	n/a
WPD (West Midlands) Syndicated Credit Facility (d)	Apr. 2016	300		71	229	n/a	n/a
Uncommitted Credit Facilities		73		3	70		£ 3
Total WPD Credit Facilities (e)		£ 1,033	£ 111	£ 144	£ 778	£ 115	£ 3
PPL Energy Supply (f)							
Syndicated Credit Facility (g) (h)	Oct. 2016	$ 3,000		$ 541	$ 2,459	$ 350	
Letter of Credit Facility	Mar. 2013	200	n/a	89	111	n/a	$ 24
Structured Credit Facility (i)	Mar. 2011	n/a	n/a	n/a	n/a	n/a	161
Total PPL Energy Supply Credit Facilities		$ 3,200		$ 630	$ 2,570	$ 350	$ 185
PPL Electric (f)							
Syndicated Credit Facility (h) (j)	Oct. 2016	$ 200		$ 1	$ 199		$ 13
Asset-backed Credit Facility (k)	July 2012	150		n/a	150		n/a
Total PPL Electric Credit Facilities		$ 350		$ 1	$ 349		$ 13
LG&E (f) (l)							
Syndicated Credit Facility (h) (m) (n)	Oct. 2016	$ 400			$ 400	$ 163	
KU (f) (l)							
Syndicated Credit Facility (h) (m)	Oct. 2016	$ 400			$ 400		$ 198
Letter of Credit Facility (o)	Apr. 2014	198	n/a	$ 198		n/a	n/a
Total KU Credit Facilities		$ 598		$ 198	$ 400		$ 198

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

(b) Under this facility, PPL WW has the ability to make cash borrowings but cannot request the lenders to issue letters of credit. PPL WW pays customary commitment fees under this facility, and borrowings bear interest at LIBOR-based rates plus a spread, depending on the company's long-term credit rating. The cash borrowing outstanding at December 31, 2011 was a USD-denominated borrowing of $178 million, which equated to £111 million at the time of borrowing and bears interest at approximately 1.05%. The interest rates at December 31, 2010 were approximately 0.94% on a USD-denominated borrowing of $181 million, which equated to £115 million at the time of borrowing.

This credit facility contains financial covenants that require PPL WW to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and a RAV that exceeds total net debt by the higher of an amount equal to 15% of total net debt or £150 million, in each case as calculated in accordance with the credit facility.

(c) Under this facility, WPD (South West) has the ability to make cash borrowings but cannot request the lenders to issue letters of credit. WPD (South West) pays customary commitment fees under this facility, and borrowings bear interest at LIBOR-based rates plus a margin.

The facility contains financial covenants that require WPD (South West) to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, in each case calculated in accordance with the credit facility.

In January 2012, WPD (South West) entered into a new £245 million syndicated credit facility to replace its existing £210 million syndicated credit facility. Under the new facility, WPD (South West) has the ability to make cash borrowings but cannot request the lenders to issue letters of credit. WPD (South West) pays customary commitment fees under this facility, and borrowings bear interest at LIBOR-based rates plus a margin. The facility contains financial covenants that require WPD (South West) to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, in each case calculated in accordance with the credit facility.

(d) In April 2011, following the completion of the acquisition of WPD Midlands, WPD (East Midlands) and WPD (West Midlands) each entered into a £300 million 5-year syndicated credit facility. Under the facilities, WPD (East Midlands) and WPD (West Midlands) each have the ability to make cash borrowings and to request the lenders to issue up to £80 million of letters of credit in lieu of borrowing. Each company pays customary commitment and utilization fees under its respective facility and borrowings generally bear interest at LIBOR-based rates plus a spread, depending upon the respective company's senior unsecured long-term debt rating. Each credit facility contains financial covenants that require the respective company to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before interest, income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, in each case calculated in accordance with the credit facilities. An aggregate of $7 million in fees were incurred in connection with establishing these facilities.

(e) The total amount borrowed under WPD's credit facilities equated to $178 million and approximately $181 million at December 31, 2011 and 2010. At December 31, 2011, the unused capacity of WPD's credit facilities was approximately $1.2 billion.

As a result of PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, the assets and liabilities of PPL Global, including the total amount borrowed under WPD's credit facilities at December 31, 2010 were removed from PPL Energy Supply's balance sheet in 2011. See Note 9 for additional information.

(f) All credit facilities at PPL Energy Supply, PPL Electric, LG&E and KU also apply to PPL on a consolidated basis for financial reporting purposes.

(g) Under this facility, PPL Energy Supply has the ability to make cash borrowings and to request the lenders to issue letters of credit. Borrowings generally bear interest at LIBOR-based rates plus a spread, depending upon the company's senior unsecured long-term debt rating. PPL Energy Supply also pays customary commitment and letter of credit issuance fees under this facility. The credit facility contains a financial covenant requiring PPL Energy Supply's debt to total capitalization not to exceed 65%, as calculated in accordance with the facility, and other customary covenants. Additionally, subject to certain conditions, PPL Energy Supply may request that the facility's capacity be increased by up to $500 million.

In October 2010, PPL Energy Supply borrowed $3.2 billion under this facility in order to enable a subsidiary to make loans to certain affiliates to provide interim financing of amounts required by PPL to partially fund PPL's acquisition of LKE. Such borrowing bore interest at 2.26% and was refinanced primarily through the issuance of long-term debt by LKE, LG&E, and KU and the use of internal funds. This borrowing and related payments were included in "Net increase (decrease) in short-term debt" on the Statement of Cash Flows.

PPL Energy Supply incurred an aggregate of $41 million of fees in 2010 in connection with establishing this facility. Such fees were initially deferred and amortized through December 2014. In connection with the reduction in the capacity from $4 billion to $3 billion in December 2010, PPL Energy Supply wrote off $10 million, $6 million after tax, of deferred fees, which was reflected in "Interest Expense" in the Statement of Income.

The borrowings outstanding at December 31, 2010 bore interest at a weighted-average rate of 2.27%.

(h) In October 2011, PPL Energy Supply, PPL Electric, LG&E and KU each amended its respective credit facility. The amendments include extending the expiration dates from December 2014 to October 2016. Under these credit facilities, PPL Energy Supply, PPL Electric, LG&E and KU each continue to have the ability to make cash borrowings and request the lenders to issue letters of credit.

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

(j) Under this facility, PPL Electric has the ability to make cash borrowings and to request the lenders to issue letters of credit. Borrowings generally bear interest at LIBOR-based rates plus a spread, depending upon the company's senior secured long-term debt rating. The credit facility contains a financial covenant requiring PPL Electric's debt to total capitalization not to exceed 70%, as calculated in accordance with the credit facility, and other customary covenants. PPL Electric also pays customary commitment and letter of credit issuance fees under this facility. Additionally, subject to certain conditions, PPL Electric may request that the facility's capacity be increased by up to $100 million. An aggregate of $2 million of fees were incurred in 2010 in connection with establishing this facility. Such fees were initially deferred and amortized through December 2014.

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

At December 31, 2011 and December 31, 2010, $251 million and $248 million of accounts receivable and $98 million and $133 million of unbilled revenue were pledged by the subsidiary under the credit agreement related to PPL Electric's and the subsidiary's participation in the asset-backed commercial paper program. Based on the accounts receivable and unbilled revenue pledged at December 31, 2011, the amount available for borrowing under the facility was limited to $103 million. PPL Electric's sale to its subsidiary of the accounts receivable and unbilled revenue is an absolute sale of assets, and PPL Electric does not retain an interest in these assets. However, for financial reporting purposes, the subsidiary's financial results are consolidated in PPL Electric's financial statements. PPL Electric performs certain record-keeping and cash collection functions with respect to the assets in return for a servicing fee from the subsidiary.

In July 2011, PPL Electric and the subsidiary extended the expiration date of the credit agreement to July 2012.

(l) All credit facilities at LG&E and KU also apply to LKE on a consolidated basis for financial reporting purposes.

(m) In June 2011, these facilities were amended such that the fees and the spreads to benchmark interest rates for borrowings depend upon the respective company's senior secured long-term debt rating rather than the senior unsecured long-term debt rating. The facilities each contain a financial covenant requiring LG&E's and KU's debt to total capitalization not to exceed 70%, as calculated in accordance with the facilities, and other customary covenants. Additionally, subject to certain conditions, LG&E and KU may request that each respective facility's capacity be increased by up to $100 million.

(n) The borrowing outstanding at December 31, 2010 bore interest at 2.27%. Such borrowing was repaid in January 2011 with proceeds received from the remarketing of certain tax-exempt bonds that were held by LG&E at December 31, 2010.

(o) In April 2011, KU entered into a letter of credit facility that has been used to issue letters of credit to support outstanding tax-exempt bonds. The facility contains a financial covenant requiring KU's debt to total capitalization not to exceed 70%, as calculated in accordance with the credit facility. KU pays customary commitment and letter of credit fees under the new facility. In August 2011, KU amended its letter of credit facility such that the fees depend upon KU's senior secured long-term debt rating rather than its senior unsecured long-term debt rating.

(PPL and PPL Energy Supply)

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

PPL Energy Supply, PPL EnergyPlus, PPL Montour and PPL Brunner Island maintain an $800 million secured energy marketing and trading facility, whereby PPL EnergyPlus will receive credit to be applied to satisfy collateral posting obligations related to its energy marketing and trading activities with counterparties participating in the facility. The credit amount is guaranteed by PPL Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities to secure any amount they may owe under their guarantees, which had an aggregate carrying value of $2.7 billion at December 31, 2011. The facility expires in November 2015, but is subject to automatic one-year renewals under certain conditions. There were no secured obligations outstanding under this facility at December 31, 2011.

In October 2011, PPL Energy Supply re-activated its $500 million commercial paper program to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At December 31, 2011, PPL Energy Supply had $400 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of approximately 0.53%, which was used to partially fund the repayment of PPL Energy Supply's 6.40% Senior Notes upon maturity discussed below.

(PPL and PPL Electric)

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

(PPL, LKE, LG&E and KU)

In February 2012, LG&E and KU each established a commercial paper program for up to $250 million to provide an additional financing source to fund their short-term liquidity needs. Commercial paper issuances will be supported by LG&E and KU's Syndicated Credit Facilities.

(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

See Note 16 for discussion of intercompany borrowings.

2011 Bridge Facility *(PPL)*

In March 2011, concurrently and in connection with entering into the agreement to acquire WPD Midlands, PPL Capital Funding and PPL WEM, as borrowers, and PPL, as guarantor, entered into a 364-day unsecured £3.6 billion bridge facility to (i) fund the acquisition and (ii) pay certain fees and expenses in connection with the acquisition. During 2011, PPL incurred $44 million of fees in connection with establishing the 2011 Bridge Facility, which is reflected in "Interest Expense" on the Statement of Income. On April 1, 2011, concurrent with the closing of the WPD Midlands acquisition, PPL Capital Funding borrowed an aggregate of £1.75 billion and PPL WEM borrowed £1.85 billion under the 2011 Bridge Facility. Borrowings bore interest at approximately 2.62%, determined by one-month LIBOR rates plus a spread, based on PPL Capital Funding's senior unsecured debt rating and the length of time from the date of the acquisition closing that borrowings were outstanding. See Note 10 for additional information on the acquisition.

In accordance with the terms of the 2011 Bridge Facility, PPL Capital Funding's borrowings of £1.75 billion were repaid with approximately $2.8 billion of proceeds received from PPL's issuance of common stock and 2011 Equity Units in April 2011, as discussed in "Long-term Debt" below. In April 2011, PPL WEM repaid £650 million of its 2011 Bridge Facility borrowing. Such repayment was funded primarily with proceeds received from PPL WEM's issuance of senior notes, which is also discussed below. In May 2011, PPL WEM repaid the remaining £1.2 billion of borrowings then-outstanding under the 2011 Bridge Facility, primarily with the proceeds from senior notes issued by WPD (East Midlands) and WPD (West Midlands), as described below.

In anticipation of the repayment of a portion of the borrowings under the 2011 Bridge Facility with U.S. dollar proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of U.S. dollar-denominated senior notes, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. See Note 19 for additional information.

Long-term Debt *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

	2011 (a)					
	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
U.S.						
Senior Unsecured Notes (b)	$ 3,574 (c) (d) (e)	$ 2,350 (d)		$ 1,125 (e)		
Junior Subordinated Notes, due 2018-2067 (f)	2,608					
8.05% - 8.30% Senior Secured Notes, due 2013 (g)	437	437				
7.375% 1945 First Mortgage Bonds, due 2014 (h)	10		$ 10			
Senior Secured/First Mortgage Bonds (i)	3,435		1,400	2,035	$ 535	$ 1,500
4.00% - 4.75% Senior Secured Bonds (Pollution Control Series), due 2023-2029 (j)	314		314			
Pollution Control Bonds (Collateral Series), due 2023-2037 (k)	925			925	574	351
Exempt Facilities Notes, due 2037-2038 (l)	231	231				
Other (m)	5	5				
Total U.S. Long-term Debt	11,539	3,023	1,724	4,085	1,109	1,851
U.K.						
3.90% - 9.25% Senior Unsecured Notes, due 2016-2040 (n)	5,862					
1.541% - 2.671% Index-linked Senior Unsecured Notes, due 2043-2056 (o)	581					
Total U.K. Long-term Debt	6,443	(p)				
Total Long-term Debt Before Adjustments	17,982	3,023	1,724	4,085	1,109	1,851
Other						
Fair value adjustments from hedging activities	3					
Fair value adjustments from purchase accounting	62 (q) (r)			7 (r)	6 (r)	1 (r)
Unamortized premium	5	5				
Unamortized discount	(59)	(4)	(6)	(19)	(3)	(10)
Total Long-Term Debt	$ 17,993	$ 3,024	$ 1,718	$ 4,073	$ 1,112	$ 1,842

	2010					
	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
U.S.						
Senior Unsecured Notes (b)	$ 3,574 (c) (d) (e)	$ 2,600 (d)		$ 875 (e)		
Junior Subordinated Notes, due 2018-2067 (f)	1,630					
8.05% - 8.30% Senior Secured Notes, due 2013 (g)	437	437				
7.375% 1945 First Mortgage Bonds, due 2014 (h)	10		$ 10			
Senior Secured/First Mortgage Bonds (i)	3,185		1,150	2,035	$ 535	$ 1,500
4.00% - 4.75% Senior Secured Bonds (Pollution Control Series), due 2023-2029 (j)	314		314			
Pollution Control Bonds (Collateral Series), due 2023-2037 (k)	925			925	574	351
Exempt Facilities Notes, due 2037-2038 (l)	231	231				
Other (m)	7	5		2		
Total U.S. Long-term Debt	10,313	3,273	1,474	3,837	1,109	1,851

	2010					
	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
U.K.						
4.80436% - 9.25% Senior Unsecured Notes, due 2017-2040 (n)	1,897	1,897				
1.541% Index-linked Senior Unsecured Notes, due 2053-2056 (o)	394	394				
Total U.K. Long-term Debt	2,291	2,291				
Total Long-term Debt Before Adjustments	12,604	5,564	1,474	3,837	1,109	1,851
Other						
Fair value adjustments from hedging activities	50	1				
Fair value adjustments from purchase accounting	38 (q) (r)	30 (q)		8 (r)	7 (r)	1 (r)
Unamortized premium	7	7				
Unamortized discount	(36)	(13)	(2)	(20)	(4)	(11)
Total Long-Term Debt	12,663	5,589	1,472	3,825	1,112	1,841
Less current portion of Long-term Debt	502	500		2		
Total Long-term Debt, noncurrent	$ 12,161	$ 5,089	$ 1,472	$ 3,823	$ 1,112	$ 1,841

(a) Aggregate maturities of long-term debt are:
PPL - 2012, $0; 2013, $737; 2014, $310; 2015, $1,300; 2016, $810; and $14,825 thereafter.
PPL Energy Supply - 2012, $0; 2013, $737; 2014, $300; 2015, $300; 2016, $350; and $1,336 thereafter.
PPL Electric - 2012, $0; 2013, $0; 2014, $10; 2015, $100; 2016, $0; and $1,614 thereafter.
LKE - 2012, $0; 2013, $0; 2014, $0; 2015, $900; 2016, $0; and $3,185 thereafter.
LG&E - 2012, $0; 2013, $0; 2014, $0; 2015, $250; 2016, $0; and $859 thereafter.
KU - 2012, $0; 2013, $0; 2014, $0; 2015, $250; 2016, $0; and $1,601 thereafter.

None of the debt securities outstanding have sinking fund requirements.

(b) At December 31, 2011:
PPL - interest rates range from 2.125% to 6.85%, and maturities range from 2013 to 2047.
PPL Energy Supply - interest rates range from 4.60% to 6.50%, and maturities range from 2013 to 2036.
LKE - interest rates range from 2.125% to 4.375%, and maturities range from 2015 to 2021.

At December 31, 2010:
PPL - interest rates range from 2.125% to 7.00%, and maturities range from 2011 to 2047.
PPL Energy Supply - interest rates range from 5.40% to 7.00%, and maturities range from 2011 to 2046.
LKE - interest rates range from 2.125% to 3.75%, and maturities range from 2015 to 2020.

(c) Includes $99 million of notes that may be redeemed at par beginning in July 2012.

(d) Includes $300 million of 5.70% REset Put Securities due 2035 (REPSSM). The REPS bear interest at a rate of 5.70% per annum to, but excluding, October 15, 2015 (Remarketing Date). The REPS are required to be put by existing holders on the Remarketing Date either for (a) purchase and remarketing by a designated remarketing dealer or (b) repurchase by PPL Energy Supply. Therefore, the REPS are reflected as a 2015 maturity for PPL and PPL Energy Supply in (a) above. If the remarketing dealer elects to purchase the REPS for remarketing, it will purchase the REPS at 100% of the principal amount, and the REPS will bear interest on and after the Remarketing Date at a new fixed rate per annum determined in the remarketing. PPL Energy Supply has the right to terminate the remarketing process. If the remarketing is terminated at the option of PPL Energy Supply or under certain other circumstances, including the occurrence of an event of default by PPL Energy Supply under the related indenture or a failed remarketing for certain specified reasons, PPL Energy Supply will be required to pay the remarketing dealer a settlement amount as calculated in accordance with the related remarketing agreement.

In July 2011, PPL Energy Supply redeemed at par the entire $250 million aggregate principal amount of its 7.00% Senior Notes due 2046. PPL Energy Supply recorded a loss of $7 million, which is reflected in "Interest Expense" on the Statements of Income for 2011, as a result of accelerating the amortization of deferred financing fees in connection with the redemption.

In November 2011, PPL Energy Supply repaid the entire $500 million principal amount of its 6.40% Senior Notes upon maturity.

In December 2011, PPL Energy Supply issued $500 million of 4.60% Senior Notes due 2021. The bonds may be redeemed at PPL Energy Supply's option at make-whole redemption prices until the date three months prior to maturity and at par thereafter. PPL Energy Supply received proceeds of $497 million, net of discounts and underwriting fees. The net proceeds were used to repay a portion of short-term debt incurred to repay at maturity PPL Energy Supply's $500 million aggregate principal amount of 6.40% Senior Notes due November 1, 2011. The balance of the net proceeds will be used for general corporate purposes.

(e) Includes $875 million of Senior Notes issued by LKE in 2010 in private offerings to qualified institutional buyers and other transactions not subject to registration requirements under the Securities Act of 1933. In April 2011, LKE filed 2011 Registration Statements with the SEC related to offers to exchange securities issued in November 2010 in transactions not registered under the Securities Act of 1933 with similar but registered securities. The 2011 Registration Statements became effective in June 2011 and the exchanges were completed in July 2011, with substantially all securities being exchanged.

In September 2011, LKE issued $250 million of 4.375% Senior Notes due 2021. The notes were issued in a private offering to qualified institutional buyers and other transactions not subject to registration requirements under the Securities Act of 1933. In connection with the issuance, LKE entered into a registration rights agreement with representatives of the initial purchasers of the notes, pursuant to which LKE agreed to file, by late April

2012, a registration statement to exchange such notes for securities containing substantially identical terms (except for certain transfer restrictions), or in certain cases to file, by late April 2012, a registration statement covering resale of the notes. LKE also agreed, under its registration rights agreement, to (i) use its commercially reasonable efforts to cause the registration statement to be declared effective under the Securities Act by late July 2012 and (ii) upon effectiveness of the registration statement, take certain actions to promptly exchange the notes or, in the case of a registration statement covering resale of the notes, keep the registration statement effective until no later than late September 2012. Pursuant to the registration rights agreement, LKE may be required to pay liquidated damages if it does not meet certain requirements under its registration rights agreement. Liquidated damages will generally accrue with respect to the principal amount of the notes at a rate of 0.25% per annum for the first 90 days from and including the date on which a default specified under the registration rights agreement occurs, and increase by an additional 0.25% per annum thereafter, provided that the liquidated damages rate shall not at any time exceed 0.50% per annum.

Liquidated damages will cease to accrue when all registration defaults under the registration rights agreement have been cured, or if earlier, upon the redemption by the issuer or maturity of the notes.

The notes may be redeemed at LKE's option at make-whole redemption prices until the date three months prior to maturity and at par thereafter. LKE received proceeds of $248 million, net of discounts and underwriting fees. The net proceeds have been used to make a return of capital to PPL.

(f) 2011 includes $480 million of Junior Subordinated Notes that bear interest at 6.70% into March 2017, at which time the notes will bear interest at three-month LIBOR plus 2.665%, reset quarterly, until maturity. Interest payments may be deferred, from time to time, on one or more occasions for up to ten consecutive years. The notes may be redeemed at par beginning in March 2017.

2011 also includes $978 million of 4.32% Junior Subordinated Notes due 2019 that were issued in connection with PPL's issuance of the 2011 Equity Units in April 2011 and $1.15 billion of 4.625% Junior Subordinated Notes due 2018 that were issued in connection with PPL's issuance of the 2010 Equity Units in June 2010. See discussion of the Equity Units below for further information on such notes.

2010 includes $480 million of Junior Subordinated Notes that bear interest at 6.70% into March 2017, at which time the notes will bear interest at three-month LIBOR plus 2.665%, reset quarterly, until maturity. Interest payments may be deferred, from time to time, on one or more occasions for up to ten consecutive years. The notes may be redeemed at par beginning in March 2017.

2010 also includes $1.15 billion of 4.625% Junior Subordinated Notes due 2018 that were issued in connection with PPL's issuance of the 2010 Equity Units in June 2010.

(g) Represents lease financing consolidated through a VIE. See Note 22 for additional information.

(h) The 1945 First Mortgage Bonds were issued under, and secured by, the lien of the 1945 First Mortgage Bond Indenture. In December 2008, PPL Electric completed an in-substance defeasance of the 1945 First Mortgage Bonds by depositing sufficient funds with the trustee solely to satisfy the principal and remaining interest obligations on the bonds when due. The amount of funds on deposit with the trustee was $12 million at December 31, 2011 and $13 million at December 31, 2010, and is recorded as restricted cash, primarily in "Other noncurrent assets" on the Balance Sheets.

Also in December 2008, PPL Electric discharged the lien under the 1945 First Mortgage Bond Indenture, which covered substantially all electric distribution plant and certain transmission plant owned by PPL Electric.

(i) At December 31, 2011:
PPL - interest rates range from 1.625% to 6.45%, and maturities range from 2015 to 2041.
PPL Electric - interest rates range from 3.00% to 6.45%, and maturities range from 2015 to 2041.
LG&E - interest rates range from 1.625% to 5.125%, and maturities range from 2015 to 2040.
KU - interest rates range from 1.625% to 5.125%, and maturities range from 2015 to 2040.

At December 31, 2010:
PPL - interest rates range from 1.625% to 7.125%, and maturities range from 2013 to 2040.
PPL Electric - interest rates range from 4.95% to 7.125%, and maturities range from 2013 to 2039.
LG&E - interest rates range from 1.625% to 5.125%, and maturities range from 2015 to 2040.
KU - interest rates range from 1.625% to 5.125%, and maturities range from 2015 to 2040.

In July 2011, PPL Electric issued $250 million of 5.20% First Mortgage Bonds due 2041. The bonds may be redeemed at PPL Electric's option at make-whole redemption prices until the date six months prior to maturity and at par thereafter. PPL Electric received proceeds of $246 million, net of discounts and underwriting fees. The net proceeds have been or will be used for capital expenditures and other general corporate purposes.

Also in July 2011, PPL Electric redeemed the entire $400 million aggregate principal amount of its 7.125% Senior Secured Bonds due 2013 for $458 million, plus accrued interest. PPL Electric recorded a regulatory asset for the redemption premium and unamortized financing costs associated with this debt. See Note 6 for additional information.

In August 2011, PPL Electric issued $400 million of 3.00% First Mortgage Bonds due 2021. The bonds may be redeemed at PPL Electric's option at make-whole redemption prices until the date three months prior to maturity and at par thereafter. PPL Electric received proceeds of $394 million, net of discounts and underwriting fees. The net proceeds were used to repay $250 million of short-term debt and to replenish cash used to redeem the 7.125% Senior Secured Bonds due 2013 in July 2011, as discussed above.

The senior secured and first mortgage bonds issued by PPL Electric are secured by the lien of the PPL Electric 2001 Mortgage Indenture, which covers substantially all electric distribution plant and certain transmission plant owned by PPL Electric. The carrying value of PPL Electric's property, plant and equipment was approximately $3.9 billion and $3.6 billion at December 31, 2011 and 2010.

LG&E's first mortgage bonds are secured by the lien of the LG&E 2010 Mortgage Indenture, which creates a lien, subject to certain exceptions and exclusions, on substantially all of LG&E's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and the storage and distribution of natural gas. The aggregate carrying value of the property subject to the lien was $2.6 billion and $2.5 billion at December 31, 2011 and December 31, 2010.

KU's first mortgage bonds are secured by the lien of the KU 2010 Mortgage Indenture, which creates a lien, subject to certain exceptions and exclusions, on substantially all of KU's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity. The aggregate carrying value of the property subject to the lien was $4.1 billion and $4.0 billion at December 31, 2011 and December 31, 2010.

The LG&E and KU first mortgage bonds were issued in 2010 in private offerings to qualified institutional buyers and other transactions not subject to registration requirements under the Securities Act of 1933. In April 2011, LG&E and KU each filed 2011 Registration Statements with the SEC related to offers to exchange the first mortgage bonds with similar but registered securities. The 2011 Registration Statements became effective in June 2011 and the exchanges were completed in July 2011, with substantially all securities being exchanged.

(j) PPL Electric issued a series of its senior secured bonds to secure its obligations to make payments with respect to each series of Pollution Control Bonds that were issued by the LCIDA and the PEDFA on behalf of PPL Electric. These senior secured bonds were issued in the same principal amount, contain payment and redemption provisions that correspond to and bear the same interest rate as such Pollution Control Bonds. These senior secured bonds were issued under PPL Electric's 2001 Mortgage Indenture and are secured as noted in (i) above. $224 million of such bonds may be redeemed at par beginning in 2015. $90 million of such bonds may be redeemed, in whole or in part, at par beginning in October 2020 and are subject to mandatory redemption upon determination that the interest rate on the bonds would be included in the holders' gross income for federal tax purposes.

(k) In October 2010, LG&E and KU each issued a series of first mortgage bonds to the respective trustees of tax-exempt revenue bonds to secure its respective obligations to make payments with respect to each series of bonds. The first mortgage bonds were issued in the same principal amount, contain payment and redemption provisions that correspond to and bear the same interest rate as such tax-exempt revenue bonds. These first mortgage bonds were issued under the LG&E 2010 Mortgage Indenture and the KU 2010 Mortgage Indenture and are secured as noted in (i) above. The related tax-exempt revenue bonds were issued by various governmental entities, principally counties in Kentucky, on behalf of LG&E and KU. The related revenue bond documents allow LG&E and KU to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, term rate of at least one year or, in some cases, an auction rate or a LIBOR index rate.

At December 31, 2011, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a term rate mode totaled $321 million, $294 million and $27 million for LKE, LG&E and KU. The weighted average rates on these bonds were 3.57%, 3.37% and 5.83% for LKE, LG&E and KU. At December 31, 2010, the amounts that were in a term rate mode totaled $183 million, $156 million and $27 million for LKE, LG&E and KU. The weighted average rates on these bonds were 5.31%, 5.22% and 5.83% for LKE, LG&E and KU.

At December 31, 2011, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a variable rate mode totaled $604 million, $280 million and $324 million for LKE, LG&E and KU. The weighted average rates on these bonds were 0.23%, 0.33% and 0.15% for LKE, LG&E and KU. At December 31, 2010, the amounts that were in a variable rate mode totaled $742 million, $418 million and $324 million for LKE, LG&E and KU. The weighted average rates on these bonds were 0.45%, 0.55% and 0.38% for LKE, LG&E and KU.

Several series of the tax-exempt revenue bonds are insured by monoline bond insurers whose ratings were reduced due to exposures relating to insurance of sub-prime mortgages. Of the bonds outstanding, $231 million are 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 LG&E and KU 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. As noted above, the instruments governing these auction rate bonds permit LG&E and KU to convert the bonds to other interest rate modes.

Certain variable rate tax-exempt revenue bonds totaling $348 million at December 31, 2011, are subject to tender for purchase by LG&E and KU at the option of the holder and to mandatory tender for purchase by LG&E and KU upon the occurrence of certain events. At December 31, 2010, LG&E held $163 million of such bonds, which were issued on its behalf by Louisville/Jefferson County, Kentucky and are reflected as "Short-term investments" on the Balance Sheet. In January 2011, the entire $163 million of bonds were remarketed to unaffiliated investors in a term rate mode, bearing interest at 1.90% into 2012. The proceeds from the remarketing were used to repay the borrowing under LG&E's syndicated credit facility, which is discussed above in "Credit Arrangements and Short-term Debt."

(l) The interest rate mode on all three series of bonds was converted from a commercial paper rate to a term rate of 3.00% for five years, effective in September 2010.

(m) At December 31, 2011:
PPL and PPL Energy Supply - 6.00% notes due 2020.

At December 31, 2010:
PPL - 6.00%- 7.471% notes due 2011-2020.
PPL Energy Supply - 6.00% notes due 2020.
LKE - 7.471% notes due 2011.

(n) Includes £225 million ($354 million at December 31, 2011 and $350 million at December 31, 2010) of notes that may be redeemed, in total but not in part, on December 21, 2026, at the greater of the principal value or a value determined by reference to the gross redemption yield on a nominated U.K. Government bond.

Also includes £3.7 billion ($5.8 billion) at December 31, 2011 and £1.0 billion ($1.6 billion) at December 31, 2010 of notes that may be put by the holders back to the issuer for redemption if the long-term credit ratings assigned to the Notes by Moody's, S&P or Fitch are withdrawn by any of the rating agencies or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or a material adverse change to, the distribution licenses under which WPD's network companies operate.

In connection with the closing of the acquisition of WPD Midlands in April 2011, PPL assumed, through consolidation, £250 million of Senior Notes due 2040 (2040 Notes) previously issued by WPD (East Midlands), and £250 million of Senior Notes due 2025 (2025 Notes) previously issued by WPD (West Midlands), equating to an aggregate principal amount of approximately $800 million at the time of closing. The interest rates on the notes are subject to adjustment into June 2012 in the event of a rating change on the notes. The 2040 Notes currently bear interest at 5.75% and the 2025 Notes currently bear interest at 6.00%.

The maximum rate of interest allowable under the adjustment provisions is 6.50% for the 2040 Notes and 6.25% for the 2025 Notes. The 2025 Notes and 2040 Notes may be put by the holders back to the respective issuer for redemption if the long-term credit ratings assigned to the notes by Moody's or S&P are withdrawn by either of the rating agencies or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or material adverse change to, the distribution license under which WPD (West Midlands) and WPD (East Midlands) operate.

In April 2011, PPL WEM issued $460 million of 3.90% Senior Notes due 2016 (2016 Notes) and $500 million of 5.375% Senior Notes due 2021 (2021 Notes). The 2016 Notes may be redeemed any time prior to maturity at PPL WEM's option at make-whole redemption prices. The 2021 Notes may be redeemed at PPL WEM's option at make-whole redemption prices until the date three months prior to maturity and at par thereafter. PPL WEM received proceeds of $953 million, net of discounts and underwriting fees, from the combined issuance of the notes. The net proceeds were used to repay a portion of PPL WEM's borrowing under the 2011 Bridge Facility as discussed above. In connection with the issuance of the senior notes, PPL WEM, through PPL, entered into cross currency interest rate swaps for the entire aggregate principal amount of each series of notes in order to hedge PPL WEM's risk of variability in the GBP functional currency equivalent cash flows related to its U.S. dollar interest and principal payments on the notes.

In May 2011, WPD (West Midlands) issued £800 million of 5.75% Senior Notes due 2032 (2032 Notes) and WPD (East Midlands) issued £600 million of 5.25% Senior Notes due 2023 (2023 Notes). WPD (West Midlands) and WPD (East Midlands) collectively received proceeds of £1.4 billion, which equated to $2.2 billion at the time of issuance, net of discounts and underwriting fees, from the combined debt issuances. A portion of the net proceeds were dividended to PPL WEM and used to repay the remaining balance of PPL WEM's borrowing under the 2011 Bridge Facility in May 2011 as discussed above. The balance of the net proceeds have been or will be used to pre-fund certain capital expenditures and for other general corporate purposes.

The 2032 Notes and the 2023 Notes may be put by the holders back to the respective issuer for redemption if the long-term credit ratings assigned to the notes by Moody's or S&P are withdrawn by either of the rating agencies or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or material adverse change to, the distribution license under which WPD (West Midlands) and WPD (East Midlands) operate.

The change from 2010 to 2011 includes an increase of $16 million resulting from movements in foreign currency exchange rates related to the amounts that were outstanding at both December 31, 2010 and December 31, 2011.

(o) The principal amount of the notes issued by WPD (South West) is adjusted on a semi-annual basis based on changes in a specified index, as detailed in the terms of the related indentures. The adjustment to the principal amount from 2010 to 2011 was an increase of approximately £14 million ($22 million) resulting from inflation and a $4 million increase resulting from movements in foreign currency exchange rates.

These notes may be redeemed, in total by series, on December 1, 2026, at the greater of the adjusted principal value and a make-whole value determined by reference to the gross real yield on a nominated U.K. government bond. Additionally, these notes may be put by the holders back to the issuer for redemption if the long-term credit ratings assigned to the notes by Moody's, S&P or Fitch are withdrawn by any of the rating agencies or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or a material adverse change to, the distribution license under which the issuer operates.

In June 2011, WPD (East Midlands) issued £100 million of Index-Linked Notes due 2043 (2043 Notes). The principal amount of the 2043 Notes is adjusted based on changes in a specified index, as detailed in the terms of the notes. WPD (East Midlands) received proceeds of £99 million, which equated to $163 million at the time of issuance, net of discounts and underwriting fees, from the issuance of the 2043 Notes. The majority of the net proceeds were used to repay short-term debt. Since issuance, the principal amount on the 2043 Notes has increased by approximately £2 million ($4 million) as a result of inflation.

The 2043 Notes may be put by the holders back to WPD (East Midlands) for redemption if the long-term credit ratings assigned to the notes by Moody's or S&P are withdrawn by either of the rating agencies or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or material adverse change to, the distribution license under which WPD (East Midlands) operates.

(p) As a result of PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, assets and liabilities of PPL Global at December 31, 2010, including total long-term debt of $2.3 billion, were removed from PPL Energy Supply's Balance Sheet in 2011. See Note 9 for additional information.

(q) Reflects adjustments made to record WPD's long-term debt at fair value at the time of acquisition of the controlling interest in WPD in 2002 and the acquisition of WPD Midlands in 2011.

(r) Reflects adjustments made to record LG&E's and KU's long-term debt at fair value at the time of acquisition of LKE in 2010.

2011 Equity Units *(PPL)*

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

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

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

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

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

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

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

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

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

In the financial statements, the proceeds from the sale of the 2011 Equity Units were allocated to the 2019 Notes and the 2011 Purchase Contracts, including the obligation to make contract adjustment payments, based on the underlying fair value of each instrument at the time of issuance. As a result, the 2019 Notes were recorded at $978 million, which approximated fair value, as long-term debt. At the time of issuance, the present value of the contract adjustment payments of $123 million was recorded to other liabilities representing the obligation to make contract adjustment payments, with an offsetting reduction to additional paid-in capital for the issuance of the 2011 Purchase Contracts, which approximated the fair value of each. The liability is being accreted through interest expense over the three-year term of the 2011 Purchase Contracts. The initial valuation of the contract adjustment payments is considered a non-cash transaction that is excluded from the Statement of Cash Flows in 2011. Costs to issue the 2011 Equity Units were primarily allocated on a relative cost basis, resulting in $25 million being recorded to "Additional paid-in capital" and $6 million being recorded to "Other noncurrent assets" on the Balance Sheet. See Note 4 for EPS considerations related to the 2011 Purchase Contracts.

2010 Equity Units *(PPL)*

In June 2010, in connection with the acquisition of LKE, PPL issued 103.5 million shares of its common stock at a public offering price of $24.00 per share, for a total of $2.484 billion. Proceeds from the issuance were $2.409 billion, net of the $75 million underwriting discount. PPL also issued 23 million 2010 Equity Units at a stated amount per unit of $50.00 for a total of $1.150 billion. Proceeds from the issuance were $1.116 billion, net of the $34 million underwriting discount.

Each 2010 Equity Unit consists of a Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in $1,000 principal amount of PPL Capital Funding 4.625% Junior Subordinated Notes due 2018 (2018 Notes).

Each 2010 Purchase Contract obligates the holder to purchase, and PPL to sell, for $50.00 a variable number of shares of PPL common stock determined by the average VWAP of PPL's common stock for the 20-trading day period ending on the third trading day prior to July 1, 2013, subject to antidilution adjustments and an early settlement upon a Fundamental Change as follows:

- if the average VWAP equals or exceeds $28.80, then 1.7361 shares (a minimum of 39,930,300 shares);
- if the average VWAP is less than $28.80 but greater than $24.00, a number of shares of common stock having a value, based on the average VWAP, equal to $50.00; and
- if the average VWAP is less than or equal to $24.00, then 2.0833 shares (a maximum of 47,915,900 shares).

If holders elect to settle the 2010 Purchase Contract prior to July 1, 2013, they will receive 1.7361 shares of PPL common stock, subject to antidilution adjustments and an early settlement upon a Fundamental Change.

A holder's ownership interest in the 2018 Notes is pledged to PPL to secure the holder's obligation under the related 2010 Purchase Contract. If a holder of a 2010 Purchase Contract chooses at any time to no longer be a holder of the 2018 Notes, such holder's obligation under the 2010 Purchase Contract must be secured by a U.S. Treasury security.

Each 2010 Purchase Contract also requires PPL to make quarterly contract adjustment payments at a rate of 4.875% per year on the $50.00 stated amount of the 2010 Equity Unit. PPL has the option to defer these contract adjustment payments until the 2010 Purchase Contract settlement date. Deferred contract adjustment payments will accrue additional contract adjustment payments at the rate of 9.5% per year until paid. Until any deferred contract adjustment payments have been paid, PPL may not declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, subject to certain exceptions.

The 2018 Notes are fully and unconditionally guaranteed by PPL as to payment of principal and interest. The 2018 Notes initially bear interest at 4.625% and are not subject to redemption prior to July 2015. Beginning July 2015, PPL Capital Funding may, at its option, redeem the 2018 Notes, in whole but not in part, at any time, at par plus accrued and unpaid interest. The 2018 Notes are expected to be remarketed in 2013 in two tranches, such that neither tranche will have an aggregate principal amount of less than the lesser of $300 million and 50% of the aggregate principal amount of the 2018 Notes to be remarketed. One tranche will mature on or about the third anniversary of the settlement of the remarketing, and the other tranche will mature on or about the fifth anniversary of such settlement. The 2018 Notes will be remarketed as subordinated, unsecured obligations of PPL Capital Funding, as PPL Capital Funding notified the trustee in September 2010 of its irrevocable election to maintain the subordination provisions of the notes and related guarantees in a remarketing. Upon a successful remarketing, the interest rate on the 2018 Notes may be reset and the maturity of the tranches may be modified as necessary. In connection with a remarketing, PPL Capital Funding may elect, with respect to each tranche, to extend or eliminate the early redemption date and/or calculate interest on the notes of a tranche on a fixed or floating rate basis. If the remarketing fails, holders of the 2018 Notes will have the right to put their notes to PPL Capital Funding on July 1, 2013 for an amount equal to the principal amount plus accrued interest.

Prior to July 2013, PPL Capital Funding may elect at one or more times to defer interest payments on the 2018 Notes for one or more consecutive interest periods until the earlier of the third anniversary of the interest payment due date and July 2015. Deferred interest payments will accrue additional interest at a rate equal to the interest rate then applicable to the 2018 Notes. Until any deferred interest payments have been paid, PPL may not, subject to certain exceptions, (i) declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, (ii) make any payment of principal of, or interest or premium, if any, on, or repay, purchase or redeem any of its debt securities that upon its liquidation ranks equal with, or junior in interest to, the subordinated guarantee of the 2018 Notes by

PPL as of the date of issuance and (iii) make any payments regarding any guarantee by PPL of securities of any of its subsidiaries (other than PPL Capital Funding) if the guarantee ranks equal with, or junior in interest to, the 2018 Notes as of the date of their issuance.

In the financial statements, the proceeds from the sale of the 2010 Equity Units were allocated to the 2018 Notes and the 2010 Purchase Contracts, including the obligation to make contract adjustment payments, based on the underlying fair value of each instrument at the time of issuance. As a result, the 2018 Notes were recorded at $1.150 billion, which approximated fair value, as long-term debt. At the time of issuance, the present value of the contract adjustment payments of $157 million was recorded to other liabilities, representing the obligation to make contract adjustment payments, with an offsetting reduction to additional paid-in capital value for the issuance of the 2010 Purchase Contracts, which approximated the fair value of each. The liability is being accreted through interest expense over the three-year term of the 2010 Purchase Contracts. The initial valuation of the contract adjustment payments is considered a non-cash transaction that was excluded from the Statement of Cash Flows in 2010. Costs to issue the 2010 Equity Units were primarily allocated on a relative cost basis, resulting in $29 million being recorded to "Additional paid-in capital" and $7 million being recorded to "Other noncurrent assets" on the Balance Sheet. See Note 4 for EPS considerations related to the 2010 Purchase Contracts.

Legal Separateness *(PPL, PPL Energy Supply, PPL Electric and LKE)*

In 2001, PPL Electric completed a strategic initiative to confirm its legal separation from PPL and PPL's other affiliated companies. This initiative was designed to enable PPL Electric to substantially reduce its exposure to volatility in energy prices and supply risks through 2009 and to reduce its business and financial risk profile by, among other things, limiting its business activities to the transmission and distribution of electricity and businesses related to or arising out of the electric transmission and distribution businesses. In connection with this initiative, PPL Electric:

- obtained long-term electric supply contracts to meet its PLR obligations (with its affiliate PPL EnergyPlus) through 2009, as further described in Note 16 under "PLR Contracts/Purchase of Accounts Receivable" (also see Note 15 under "Energy Purchase Commitments" for information on current PLR supply procurement procedures);
- agreed to limit its businesses to electric transmission and distribution and related activities;
- adopted amendments to its Articles of Incorporation and Bylaws containing corporate governance and operating provisions designed to clarify and reinforce its legal and corporate separateness from PPL and its other affiliated companies; and
- appointed an independent director to its Board of Directors and required the unanimous approval of the Board of Directors, including the consent of the independent director, to amendments to these corporate governance and operating provisions or to the commencement of any insolvency proceedings, including any filing of a voluntary petition in bankruptcy or other similar actions.

In addition, in connection with the issuance of certain series of bonds, PPL Electric entered into a compliance administration agreement with an independent compliance administrator to review, on a semi-annual basis, its compliance with the corporate governance and operating requirements contained in its Articles of Incorporation and Bylaws. Such series of bonds are no longer outstanding and the compliance administration agreement has terminated, but PPL Electric continues to comply with the corporate separateness provisions in its Articles of Incorporation and Bylaws.

The enhancements to PPL Electric's legal separation from its affiliates are intended to minimize the risk that a court would order PPL Electric's assets and liabilities to be substantively consolidated with those of PPL or another affiliate of PPL in the event that PPL or another PPL affiliate were to become a debtor in a bankruptcy case. Based on these various measures, PPL Electric was able to issue and maintain a higher level of debt and use it to replace higher cost equity, thereby maintaining a lower total cost of capital. Nevertheless, if PPL or another PPL affiliate were to become a debtor in a bankruptcy case, there can be no assurance that a court would not order PPL Electric's assets and liabilities to be consolidated with those of PPL or such other PPL affiliate.

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay the creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Energy Supply, PPL Electric and LKE are each separate legal entities. These subsidiaries are not liable for the debts of PPL Energy Supply, PPL Electric and LKE. Accordingly, creditors of PPL Energy Supply, PPL Electric and LKE may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL Energy Supply, PPL Electric and LKE are not liable for the debts of their subsidiaries, nor are their subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Energy Supply, PPL Electric and LKE (or their other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

Distributions, Capital Contributions and Related Restrictions

(PPL)

In November 2011, PPL declared its quarterly common stock dividend, payable January 3, 2012, at 35.0 cents per share (equivalent to $1.40 per annum). In February 2012, PPL declared its quarterly common stock dividend, payable April 2, 2012, at 36.0 cents per share (equivalent to $1.44 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

Neither PPL Capital Funding nor PPL may declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067. Subject to certain exceptions, PPL may not declare or pay any dividend or distribution on its capital stock until any deferred interest payments on its 4.625% Junior Subordinated Notes due 2018 and its 4.32% Junior Subordinated Notes due 2019 have been paid and deferred contract adjustment payments on PPL's Purchase Contracts have been paid. At December 31, 2011, no payments were deferred on either series of junior subordinated notes or the Purchase Contracts.

(PPL, PPL Electric, LKE, LG&E and KU)

PPL relies on dividends or loans from its subsidiaries to fund PPL's dividends to its common shareholders. The net assets of certain PPL subsidiaries are subject to legal restrictions. LKE primarily relies on dividends from its subsidiaries to fund its dividends to PPL. LG&E, KU and PPL Electric are subject to Section 305(a) of the Federal Power Act, which makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in capital account." The meaning of this limitation has never been clarified under the Federal Power Act. LG&E, KU and PPL Electric believe, however, that this statutory restriction, as applied to their circumstances, would not be construed or applied by the FERC to prohibit the payment from retained earnings of dividends that are not excessive and are for lawful and legitimate business purposes. Also, under Virginia law, KU is prohibited from making loans to affiliates without the prior approval of the VSCC. There are no comparable statutes under Kentucky law applicable to LG&E and KU, or under Pennsylvania law applicable to PPL Electric. However, Orders from the KPSC require LG&E or KU to obtain prior regulatory consent or approval before loaning funds to PPL. At December 31, 2011, the net restricted assets of LG&E and KU were approximately $4.4 billion.

(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The following distributions and capital contributions occurred in 2011:

	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Dividends/distributions paid to parent/member	$ 316 (a)	$ 92	$ 533 (b)	$ 83	$ 124
Capital contributions received from parent/member	461	100			

(a) In addition to the cash distributions paid, in January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent company, PPL Energy Funding. See Note 9 for additional information.
(b) Includes $248 million return of capital made to PPL in September 2011 from proceeds of senior unsecured note issuance.

(PPL Energy Supply)

In January 2012, PPL Energy Supply distributed $200 million to its parent.

(PPL and PPL Energy Supply)

The PPL Montana Colstrip lease places certain restrictions on PPL Montana's ability to declare dividends. At this time, PPL believes that these covenants will not limit PPL's or PPL Energy Supply's ability to operate as desired and will not affect their ability to meet any of their cash obligations. WPD subsidiaries also have financing arrangements that limit their ability to pay dividends. However, PPL does not, at this time, expect that any of such limitations would significantly impact PPL's ability to meet its cash obligations.

(PPL and PPL Electric)

As discussed in Note 3, PPL Electric may not pay dividends on its common stock, except in certain circumstances, unless full dividends have been paid on the Preference Shares for the then-current dividend period. The quarterly dividend rate for PPL Electric's Preference Shares is $1.5625 per depositary share. PPL Electric has declared and paid dividends on its outstanding Preference Shares since issuance. Dividends on the Preference Shares are not cumulative and future dividends, declared at the discretion of PPL Electric's Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

(LG&E and KU)

In February 2012, LG&E and KU filed an application with FERC seeking authorization to pay dividends in the future based on retained earnings balances, which would be calculated ignoring the impact of the accounting for the acquisition by PPL. If approved, as of December 31, 2011, this would increase the balance available for dividends from LG&E by $809 million and KU by $1.4 billion. LG&E and KU do not anticipate changing their dividend practices.

8. Acquisitions, Development and Divestitures

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The Registrants continuously evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are continuously reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. Any resulting transactions may impact future financial results. See Note 9 for information on PPL Energy Supply's distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, which was presented as discontinued operations by PPL Energy Supply, and the sales of businesses that were presented as discontinued operations by PPL, PPL Energy Supply and LKE. See Note 10 for information on PPL's acquisitions of WPD Midlands and LKE.

(PPL, LKE, LG&E and KU)

Acquisition

Pending Bluegrass CTs Acquisition

In September 2011, LG&E and KU entered into an Asset Purchase Agreement with Bluegrass Generation for the purchase of the Bluegrass CTs, aggregating approximately 495 MW, plus limited associated contractual arrangements required for operation of the units, for a purchase price of $110 million. Pursuant to the Asset Purchase Agreement, LG&E and KU will jointly acquire the Bluegrass CTs as tenants in common, with LG&E as owner of a 69% undivided interest, and KU as owner of a 31% undivided interest, in the purchased assets. The purchase is subject to receipt of approvals from the KPSC, the FERC, certain permit assignments or local approvals, and other conditions. Either party can terminate the Asset Purchase Agreement should the purchase transaction fail to occur by June 30, 2012.

Development

NGCC Construction

In September 2011, LG&E and KU requested KPSC approval to build a 640 MW NGCC at the existing Cane Run plant site in Kentucky. This project is also subject to certain regulatory approvals. Once all approvals are received, construction is expected to begin in 2012 and be complete by 2016. The project, which includes building a natural gas supply pipeline, has an expected cost of approximately $580 million. See Note 6 for additional information.

In conjunction with this request and to meet new, stricter federal EPA regulations, LG&E and KU anticipate retiring six older coal-fired electric generating units at the Cane Run, Green River and Tyrone plants, which have a combined summer rating of 797 MW. The Cane Run and Green River coal units will need to remain operational until the replacement generation and associated transmission projects are completed.

TC2

In January 2011, LKE began dispatching electricity from TC2 to meet customer demand. See Note 15 for additional information regarding the construction of TC2.

(PPL and PPL Energy Supply)

Hydroelectric Expansion Projects

In 2009, in light of the availability of tax incentives and potential federal loan guarantees for renewable projects contained in the Economic Stimulus Package, PPL Energy Supply filed an application with the FERC to expand capacity at its Holtwood hydroelectric plant, which the FERC approved. The project's expected cost is $438 million. Construction continues on the project, with commercial operations scheduled to begin in 2013. At December 31, 2011, expected remaining expenditures are $196 million.

In 2009, PPL Montana received FERC approval for its request to redevelop the Rainbow hydroelectric facility at Great Falls, Montana to increase capacity by 28 MW. The project's expected cost is $207 million. Construction continues on the project, with commercial operations scheduled to begin in 2012. At December 31, 2011, expected remaining expenditures are $29 million.

PPL Energy Supply believes that it is qualified for either investment tax credits or Treasury grants for the projects at the Holtwood and Rainbow facilities. PPL Energy Supply has recognized investment tax credits and continues to evaluate whether to seek Treasury grants in lieu of the credits. During 2010, PPL Energy Supply recorded deferred investment tax credits of $52 million related to 2010 and 2009. During 2011, PPL Energy Supply recorded deferred investment tax credits of $52 million related to 2011. PPL Energy Supply anticipates recognizing an additional $54 million in tax credits for tax years 2012 and 2013. These credits reduce PPL Energy Supply's tax liability and will be amortized over the life of the related assets.

Susquehanna Uprate Project

In 2008, PPL Susquehanna received NRC approval for its request to increase the generation capacity of the Susquehanna nuclear plant. The project was completed in phases over several years. The final phase of the project, a 50 MW Unit 2 uprate, was completed in 2011. PPL Susquehanna's share of the total capacity increase was approximately 195 MW.

Bell Bend COLA

In 2008, a PPL Energy Supply subsidiary, PPL Bell Bend, LLC (PPL Bell Bend) submitted a COLA to the NRC for the proposed Bell Bend nuclear generating unit (Bell Bend) to be built adjacent to the Susquehanna plant. Also in 2008, the COLA was formally docketed and accepted for review by the NRC. PPL Bell Bend continues to respond to questions from the NRC regarding technical and site specific information provided in the initial COLA and subsequent amendments. PPL Bell Bend does not expect to complete the COLA review process with the NRC prior to 2014.

In 2008, PPL Bell Bend submitted Parts I and II of an application for a federal loan guarantee for Bell Bend to the DOE. The DOE is expected in the first half of 2012 to finalize the first nuclear loan guarantee for a project in Georgia. Eight of the ten applicants that submitted Part II applications remain active in the DOE program; however, the DOE has stated that the $18.5 billion currently appropriated to support new nuclear projects would not likely be enough for more than three projects. PPL Bell Bend submits quarterly application updates for Bell Bend to the DOE to remain active in the loan guarantee application process.

PPL Bell Bend has made no decision to proceed with construction of Bell Bend and expects that such decision will not be made for several years given the anticipated lengthy NRC license approval process. Additionally, PPL Bell Bend has announced that it does not expect to proceed with construction absent favorable economics, a joint arrangement with other interested parties and a federal loan guarantee or other acceptable financing. PPL Bell Bend is currently authorized to spend up to $162 million through 2012 on the COLA and other permitting costs (including land costs) necessary for construction. At December 31, 2011 and 2010, $131 million and $109 million of costs associated with the licensing application were capitalized and are included on the Balance Sheets in noncurrent "Other intangibles." PPL Bell Bend believes it is probable that these costs are ultimately recoverable following NRC approval of the COLA either through construction of the new nuclear unit, transfer of the COLA rights to a joint venture, or sale of the COLA rights to another party.

Susquehanna-Roseland Transmission Line *(PPL and PPL Electric)*

In 2007, PJM directed the construction of a new 150-mile, 500-kilovolt transmission line between the Susquehanna substation in Pennsylvania and the Roseland substation in New Jersey that it identified as essential to long-term reliability of the Mid-Atlantic electricity grid. PJM determined that the line is needed to prevent potential overloads that could occur on several existing transmission lines in the interconnected PJM system. PJM has directed PPL Electric to construct the portion of the Susquehanna-Roseland line in Pennsylvania and has directed Public Service Electric & Gas Company to construct the portion of the line in New Jersey, in each case by June 1, 2012. PPL Electric's estimated share of the project costs is approximately $500 million.

This project is pending certain regulatory approvals. PPL Electric has identified the approximately 100-mile route for the Pennsylvania portion of the line. In February 2010, the PUC and the New Jersey Board of Public Utilities approved the project. Several parties appealed the PUC decision to the Commonwealth Court of Pennsylvania. In July 2011, the Commonwealth Court affirmed the PUC's order approving the project, and no further appeals were filed.

In addition, both companies are working with the National Park Service to obtain any approvals that may be required to route the line through the Delaware Water Gap National Recreation Area. The National Park Service record of decision for the project is scheduled to be issued on October 1, 2012. In October 2011, the project was placed on the initial list of projects for the Rapid Response Team for Transmission (RRTT), an initiative of the White House to facilitate coordination among federal agencies to improve the overall quality and timeliness of electric transmission infrastructure permitting, review and consultation. The RRTT has reaffirmed the issuance date of the National Park Service record of decision for the project. The National Park Service has stated that it will announce the preferred route for the transmission line in March 2012 with an expected Record of Decision in October 2012 . PPL Electric cannot predict the ultimate outcome or timing of the National Park Service approval.

PPL Electric anticipates the delays in the approval process will postpone the in-service date to 2015. In 2011, PJM issued an updated assessment of the new line within its 2010 Regional Transmission Expansion Plan, which confirms that the line is needed to prevent overloads on other power lines in the region. PJM has developed a strategy to manage potential reliability problems until the line is built. PPL Electric cannot predict what action, if any, PJM might take in the event of a further delay to its scheduled in-service date for the new line.

9. Discontinued Operations

(PPL and PPL Energy Supply)

Sale of Certain Non-core Generation Facilities

In March 2011, PPL Energy Supply subsidiaries completed the sale of their ownership interests in certain non-core generation facilities, which were included in the Supply segment, for $381 million. The transaction included the natural gas-fired facilities in Wallingford, Connecticut and University Park, Illinois and an equity interest in Safe Harbor Water Power Corporation, which owns a hydroelectric facility in Conestoga, Pennsylvania.

These non-core generation facilities met the held for sale criteria in the third quarter of 2010. As a result, assets with a carrying amount of $473 million were written down to their estimated fair value (less cost to sell) of $377 million at September 30, 2010, resulting in a pre-tax impairment charge of $96 million ($58 million after tax). In addition, $5 million ($4 million after tax) of allocated goodwill was written off in the third quarter of 2010. During the fourth quarter of 2010 and in connection with the completion of the sale, in 2011, PPL Energy Supply recorded insignificant losses. These charges are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income.

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

	2011	2010	2009
Operating revenues	$ 19	$ 113	$ 106
Operating expenses (a)	11	156	42
Operating income (loss)	8	(43)	64
Other income (expense) - net		2	2
Interest expense (b)	3	11	9
Income (loss) before income taxes	5	(52)	57
Income tax expense (benefit)	3	(18)	24
Income (Loss) from Discontinued Operations	$ 2	$ (34)	$ 33

(a) 2010 includes the impairments to the carrying value of the non-core generation facilities and the write-off of allocated goodwill.
(b) Represents allocated interest expense based upon debt attributable to the generation facilities sold.

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

Sale of Long Island Generation Business

In February 2010, PPL Energy Supply subsidiaries completed the sale of the Long Island generation business, which was included in the Supply segment. The definitive sales agreement included provisions that reduced the $135 million purchase price monthly, commencing September 1, 2009. After adjusting for these price-reduction provisions, proceeds from the sale approximated $124 million.

In the second quarter of 2009, the Long Island generation business met the held for sale criteria. As a result, at June 30, 2009, net assets held for sale were written down to their estimated fair value less cost to sell, resulting in a pre-tax impairment charge of $52 million ($34 million after tax). At both September 30 and December 31, 2009, the estimated fair value (less cost to sell) was remeasured and additional impairments totaling $10 million ($3 million after tax) were recorded. In 2010 PPL Energy Supply recorded an insignificant loss due to the price-reduction provisions. The losses recognized in the third and fourth quarters of 2009 and in 2010 did not significantly impact earnings, as such amounts were substantially offset by tolling revenues from the Long Island generation assets during the same periods. In addition, an insignificant amount of goodwill allocated to this business was written off in 2009. These amounts are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income. There was no significant impact on earnings in 2010 from the operation of this business or as a result of this sale.

The tolling agreements related to these plants were transferred to the new owner upon completion of the sale.

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

		2009
Operating revenues	$	24
Operating expenses (a)		73
Operating income (loss)		(49)
Interest expense (b)		4
Income (loss) before income taxes		(53)
Income tax expense (benefit)		(20)
Income (Loss) from Discontinued Operations	$	(33)

(a) Includes impairment charges.
(b) Represents allocated interest expense based upon debt attributable to the Long Island generation business sold.

Sale of Maine Hydroelectric Generation Business

Sale of the Remaining Maine Hydroelectric Generation Facilities

In December 2010, a PPL Energy Supply subsidiary completed the sale of its remaining three hydroelectric facilities in Maine, which were included in the Supply segment, for $24 million. As a result of the sale, PPL Energy Supply recorded a gain of $11 million ($7 million after tax), reflected in "Income (Loss) from Discontinued Operations (net of income taxes)" on the 2010 Statement of Income.

Sale of the Majority of Maine Hydroelectric Generation Business

In 2009, a PPL Energy Supply subsidiary completed the sale of the majority of its Maine hydroelectric generation business, which was included in the Supply segment, for $81 million in cash, adjusted for working capital. The assets sold in this transaction included five hydroelectric facilities and a 50% equity interest in a sixth hydroelectric facility, which had been accounted for as an equity investment, together with rights to increase energy output at these facilities upon completion of the sale of the PPL Energy Supply subsidiary's three other hydroelectric facilities in Maine (see "Sale of the Remaining Maine Hydroelectric Generation Business" above). As a result of the sale of the majority of the Maine hydroelectric generation business, PPL Energy Supply recorded a gain of $38 million ($22 million after tax), reflected in "Income (Loss) from Discontinued Operations (net of income taxes)" on the 2009 Statement of Income. Additionally, in December 2010, the PPL Energy Supply subsidiary received $14 million in contingent consideration, which was tied to its completion of the sale of the three other hydroelectric facilities noted above. PPL Energy Supply accordingly recorded a gain of $14 million ($8 million after tax), reflected in "Income (Loss) from Discontinued Operations (net of income taxes)" on the 2010 Statement of Income.

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

	2010	2009
Operating revenues		$ 5
Operating expenses (a)	$ (25)	(34)
Operating income	25	39
Other income (expense) - net		3
Interest expense (b)		1
Income before income taxes	25	41
Income tax expense	10	17
Income from Discontinued Operations	$ 15	$ 24

(a) Includes the gains recorded on the sales.
(b) Represents allocated interest expense based upon debt attributable to the Maine hydroelectric generation business sold.

Sale of Latin American Businesses

In 2007, PPL Energy Supply completed the sale of its regulated electricity delivery businesses in Chile, El Salvador and Bolivia, which were included in the International Regulated segment. In 2009, PPL Energy Supply identified a correction to the previously computed tax bases of the Latin American businesses. The most significant adjustment related to the sale of the El Salvadoran business and was largely due to returns of capital in certain prior years that had not been reflected in the calculated tax basis. As a result, PPL Energy Supply recorded $24 million of additional income tax expense in 2009, which is reflected in "Income (Loss) from Discontinued Operations (net of income taxes)" on the 2009 Statement of Income. The additional expense is not considered by management to be material to the 2009 financial statements.

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

In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global, which represented the entire International Regulated segment, to PPL Energy Supply's parent, PPL Energy Funding. The distribution was made based on the book value of the assets and liabilities of PPL Global with financial effect as of January 1, 2011, and no gains or losses were recognized on the distribution. The purpose of the distribution was to better align PPL's organizational structure with the manner in which it manages these businesses, separating the U.S.-based competitive energy marketing and supply business from the U.K.-based regulated electricity distribution business. Following the distribution, PPL Energy Supply operates in a single reportable segment, and through its subsidiaries is primarily engaged in the generation and marketing of power, primarily in the northeastern and northwestern U.S.

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

	2010	2009
Operating revenues	$ 761	$ 716
Operating expenses	368	328
Operating income	393	388
Other income (expense) - net	4	(11)
Interest expense (a)	135	87
Income before income taxes	262	290
Income tax expense (b)	1	47
Income (Loss) from Discontinued Operations	$ 261	$ 243

(a) No interest was allocated, as PPL Global was sufficiently capitalized.
(b) 2009 includes the impact of the Latin American adjustments discussed above.

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

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

WKE

(PPL and LKE)

WKE had a 25-year lease for and operated nine generating facilities of BREC, and a coal-fired generating facility owned by the City of Henderson, Kentucky.

In 2007, WKE entered into an agreement to terminate the lease, which closed in 2009, prior to PPL acquiring LKE. As part of the lease termination, LKE was obligated to pay a former customer, an aluminum smelter, an aluminum production payment in lieu of a lump-sum cash consent payment, as well as the difference between the electricity prices charged by WKE under the previous long-term sales contract and the electricity prices charged by the aluminum smelter's current electricity supplier. This obligation was partially mitigated by the opportunity to make off-system sales, when economic, for the contractual demand not used by the aluminum smelter. In addition, the total amount of the obligation to this smelter was limited to $82 million; any amount paid by LKE over the limit has been recorded as an interest-bearing receivable and is required to be repaid (plus interest) only if certain conditions occur by 2028. Such exposure expired in January 2011. In addition, because the former customer posted a letter of credit supporting payment to its current electricity supplier, LKE reversed a portion of the accrual associated with its guarantee of payment by the former customer. Also, WKE had a contingent obligation to another aluminum smelter, also a former customer, to make an escrow payment of approximately $4 million, which became payable and was included in the liability at December 31, 2010, and paid in January 2011. The income statement impacts are included in the Kentucky Regulated segment for PPL and are reflected in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income. See Note 15 for additional information related to the termination of the lease. The results of operations for the 2011 and 2010 Successor periods were insignificant.

(LKE)

Following are the components of Discontinued Operations in LKE's Statements of Income.

	Predecessor	
	Ten Months Ended October 31, 2010	**Year Ended December 31, 2009**
Operating revenues		$ 128
Loss before taxes	$ (7)	$ (222)
Income tax benefit	3	79
Loss from discontinued operations	$ (4)	$ (143)
Gain (loss) on disposal of discontinued operations before tax	5	(114)
Income tax benefit (expense) from disposal of discontinued operations	(2)	45
Gain (loss) on disposal of discontinued operations	$ 3	$ (69)

Argentine Gas Distribution

At December 31, 2009, LKE owned interests in two gas distribution companies in Argentina: 45.9% of Distribuidora de Gas Del Centro S.A. (Centro) and 14.4% of Distribuidora de Gas Cuyana S.A. (Cuyana). These two entities served a combined customer base of approximately one million customers. The Centro investment was consolidated due to LKE's majority ownership in the holding company of Centro. The Cuyana investment was accounted for using the equity method due to the ownership influence LKE exerted on the businesses.

In November 2009, subsidiaries of LKE entered into agreements to sell their direct and indirect interests in Centro and Cuyana to E.ON Spain and a subsidiary, both affiliates of E.ON. On January 1, 2010, the parties completed the transfer of the interests for a sale price of $35 million. In December 2009, LKE recorded an impairment loss of $12 million. The impairment loss represented the difference between the carrying values of LKE's interests in Centro and Cuyana and the sales price. LKE classified the results of operations of the Argentine gas distribution companies, including the impairment loss, as discontinued operations for all periods presented effective December 31, 2009. In connection with the reorganization transaction, E.ON Spain assumed rights and obligations relating to claims and liabilities associated with the former Argentine businesses or indemnified LKE with respect to such matters.

Following are the components of Discontinued Operations in LKE's Statement of Income.

	Predecessor
	Year Ended December 31, 2009
Operating revenues	$ 60
Income tax expense	(8)
Noncontrolling interest	(5)
Loss from discontinued operations	$ (13)

10. Business Acquisitions

Acquisition of WPD Midlands *(PPL)*

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands), from subsidiaries of E.ON AG. The consideration for the acquisition consisted of cash of $5.8 billion, including the repayment of $1.7 billion of affiliate indebtedness owed to subsidiaries of E.ON AG, and approximately $800 million of long-term debt assumed through consolidation. WPD Midlands operates two regulated distribution networks that serve five million end-users in the Midlands area of England. The acquisition increases the regulated portion of PPL's business and enhances rate-regulated growth opportunities as the regulated businesses make investments to improve infrastructure and customer reliability. Further, since the service territories of WPD (South Wales), WPD (South West) and WPD Midlands are contiguous, cost savings, efficiencies and other benefits are expected from the combined operations of these entities.

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

Aggregate enterprise consideration	$ 6.6
Less: fair value of long-term debt outstanding assumed through consolidation	0.8
Total cash consideration paid	5.8
Less: funds used to repay pre-acquisition affiliate indebtedness	1.7
Cash consideration paid for Central Networks' outstanding ordinary share capital	$ 4.1

The total cash consideration paid was primarily funded by borrowings under the 2011 Bridge Facility on the date of acquisition. Subsequently, PPL repaid those borrowings in 2011 using proceeds from the permanent financing, including issuances of common stock and 2011 Equity Units, as well as proceeds from the issuance of debt by PPL WEM, WPD (East Midlands) and WPD (West Midlands). See Note 7 for additional information on the 2011 Bridge Facility and permanent financing.

Purchase Price Allocation

The following table summarizes (in billions) the allocation of the purchase price of WPD Midlands to the fair value of the major classes of assets acquired and liabilities assumed.

Current assets (a)	$	0.2
PP&E		4.9
Intangible assets		0.1
Other noncurrent assets		0.1
Current liabilities (b)		(0.4)
PPL WEM affiliate indebtedness		(1.7)
Long-term debt (current and noncurrent) (b)		(0.8)
Other noncurrent liabilities (b)		(0.7)
Net identifiable assets acquired		1.7
Goodwill		2.4
Net assets acquired	$	4.1

(a) Includes gross contractual amount of the accounts receivable acquired of $122 million, which approximates fair value.
(b) Represents non-cash activity excluded from the 2011 Statement of Cash Flows.

The purchase price allocation resulted in goodwill of $2.4 billion that was assigned to the International Regulated segment. The goodwill is attributable to the expected continued growth of a rate-regulated business with a defined service area operating under a constructive regulatory framework, expected cost savings, efficiencies and other benefits resulting from a contiguous service area with WPD (South West) and WPD (South Wales), as well as the ability to leverage WPD (South West)'s and WPD (South Wales)'s existing management team's high level of performance in capital cost efficiency, system reliability and customer service. The goodwill is not deductible for U.K. income tax purposes.

Separation Benefits - International Regulated Segment

In connection with the acquisition, PPL completed a reorganization designed to transition WPD Midlands from a functional structure to a regional structure that will require a smaller combined support structure, reduce duplication and implement more efficient procedures. Approximately 740 employees of WPD Midlands have or will receive separation benefits from the companies as a result of the reorganization through the end of 2012.

The separation benefits, before income taxes, associated with the reorganization are as follows.

Severance compensation	$	58
Early retirement deficiency costs (ERDC) under applicable pension plans		45
Outplacement services		1
Total separation benefits	$	104

In connection with the reorganization, WPD Midlands recorded $93 million of the total expected separation benefits in 2011, of which $48 million relates to severance compensation and $45 million relates to ERDC. Based on the expected timing of when employees will separate from the companies, WPD Midlands expects to record the remaining portion of severance compensation in 2012. The separation benefits recorded in 2011 are included in "Other operation and maintenance" on the Statement of Income. The accrued severance compensation is reflected in "Other current liabilities" and the ERDC reduced "Other noncurrent assets" on the Balance Sheet at December 31, 2011.

The carrying amount of accrued severance was as follows.

Severance compensation	$	48
Severance paid (a)		(27)
Accrued severance at December 31, 2011	$	21

(a) Payments to approximately 350 employees separated.

In addition to the reorganization costs noted above, an additional $9 million was recorded in 2011 for ERDC payable under applicable pension plans and severance compensation for certain employees who separated from the WPD Midlands companies, but were not part of the reorganization. These separation benefits are also included in "Other operation and maintenance" on the Statement of Income.

Pro forma Information

WPD Midlands' operating revenues, net income and net income excluding nonrecurring acquisition-related adjustments (which are recorded on a one-month lag) included in PPL's 2011 Statement of Income and included in the International Regulated segment, are as follows.

Operating revenues	$	790
Net Income		137
Net Income - excluding nonrecurring acquisition-related adjustments		281

The pro forma operating revenues and net income attributable to PPL, which include LKE as if the acquisition had occurred January 1, 2009 and WPD Midlands as if the acquisition had occurred January 1, 2010, are as follows.

	2011	2010
Operating Revenues - PPL consolidated pro forma (unaudited)	$ 13,140	$ 11,850
Net Income Attributable to PPL - PPL consolidated pro forma (unaudited)	1,800	1,462

The pro forma financial information presented above has been derived from the historical consolidated financial statements of PPL and LKE, which was acquired on November 1, 2010, and from the historical combined financial statements of WPD Midlands. Income (loss) from discontinued operations (net of income taxes), which was not significant for 2011 and was $(18) million for 2010, were excluded from the pro forma amounts above.

The pro forma adjustments include adjustments to depreciation, net periodic pension costs, interest expense, nonrecurring adjustments and the related income tax effects. Nonrecurring adjustments include the following pre-tax credits (expenses).

	Income Statement Line Item	2011	2010
WPD Midlands acquisition			
2011 Bridge Facility costs	Interest Expense	$ (44)	
Foreign currency loss on 2011 Bridge Facility	Other Income (Expense) - net	(57)	
Net hedge gains	Other Income (Expense) - net	55	
Hedge ineffectiveness	Interest Expense	(12)	
U.K. stamp duty tax	Other Income (Expense) - net	(21)	
Separation benefits	Other operation and maintenance	(102)	
Other acquisition-related costs	(a)	(77)	
LKE acquisition			
2010 Bridge Facility costs	Interest Expense		$ (80)
Other acquisition-related costs	Other Income (Expense) - net		(31)

(a) Primarily includes advisory, accounting and legal fees recorded in "Other Income (Expense) - net" and contract termination costs, rebranding costs and relocation costs recorded in "Other operation and maintenance."

Acquisition of LKE

(PPL)

On November 1, 2010, PPL completed the acquisition of all of the limited liability company interests of E.ON U.S. LLC from a wholly owned subsidiary of E.ON AG. Upon completion of the acquisition, E.ON U.S. LLC was renamed LG&E and KU Energy LLC (LKE). LKE is a holding company with regulated utility operations conducted through its subsidiaries, LG&E and KU. The acquisition reapportioned the mix of PPL's regulated and competitive businesses by increasing the regulated portion of its business, strengthens PPL's credit profile and enhances rate-regulated growth opportunities as the regulated businesses make investments to improve infrastructure and customer reliability.

The fair value of the consideration paid for E.ON U.S. LLC was as follows (in billions).

Aggregate enterprise consideration	$	7.6
Less: fair value of assumed long-term debt outstanding, net		0.8
Total cash consideration paid		6.8
Less: funds used to repay pre-acquisition affiliate indebtedness		4.3
Cash consideration paid for E.ON U.S. LLC equity interests	$	2.5

The total cash consideration paid, including repayment of affiliate indebtedness, was funded by PPL's June 2010 issuance of $3.6 billion of common stock and 2010 Equity Units that provided proceeds totaling $3.5 billion, net of underwriting discounts, $3.2 billion of borrowings under an existing credit facility in October 2010, $249 million of proceeds from the monetization of certain full-requirement sales contracts in July 2010 and cash on hand. See Note 7 for additional information on the issuance of common stock and 2010 Equity Units and the October 2010 borrowing under PPL Energy Supply's syndicated credit facility that provided interim financing to partially fund the acquisition. See Note 19 for additional information on the monetization of certain full-requirement sales contracts.

Purchase Price Allocation

The following table summarizes (in billions) the allocation of the purchase price of LKE to the fair value of the major classes of assets acquired and liabilities assumed.

Current assets (a)	$	0.9
PP&E		7.5
Other intangibles (current and noncurrent)		0.4
Regulatory and other noncurrent assets		0.7
Current liabilities, excluding current portion of long-term debt (b)		(0.5)
PPL affiliate indebtedness (c)		(4.3)
Long-term debt (current and noncurrent) (b)		(0.9)
Other noncurrent liabilities (b)		(2.3)
Net identifiable assets acquired		1.5
Goodwill		1.0
Net assets acquired	$	2.5

(a) Includes gross contractual amount of the accounts receivable acquired of $186 million. PPL expected $11 million to be uncollectible; however, credit risk is mitigated since uncollectible accounts are a component of customer rates.
(b) Represents non-cash activity excluded from the 2010 Statement of Cash Flows.
(c) Includes $1.6 billion designated as a capital contribution to LKE.

For purposes of goodwill impairment testing, the $996 million of goodwill was assigned to the PPL reportable segments expected to benefit from the acquisition. Both the Kentucky Regulated and the Supply segments are expected to benefit and the assignment of goodwill was $662 million to the Kentucky Regulated segment and $334 million to the Supply segment. The goodwill at the Kentucky Regulated segment reflects the value paid for the expected continued growth of a rate-regulated business located in a defined service area with a constructive regulatory environment, the ability of LKE to leverage its assembled workforce to take advantage of those growth opportunities and the attractiveness of stable, growing cash flows. Although no other assets or liabilities from the acquisition were assigned to the Supply segment, the Supply segment obtained a synergistic benefit attributed to the overall de-risking of the PPL portfolio, which enhanced PPL Energy Supply's credit profile, thereby increasing the value of the Supply segment. This increase in value resulted in the assignment of goodwill to the Supply segment. None of the goodwill recognized is expected to be included in regulated customer rates or deductible for income tax purposes. As such, no deferred taxes were recorded related to goodwill.

See Note 9 and the "Guarantees and Other Assurances" section of Note 15 for additional information on certain indemnifications provided by LKE, the most significant of which relates to the discontinued operations of WKE.

The actual LKE operating revenues and net income attributable to PPL included in PPL's 2010 Statement of Income are as follows.

	Operating Revenues	Net Income (Loss) Attributable to PPL
Actual from November 1, 2010 - December 31, 2010	$ 493	$ 47

(PPL, PPL Energy Supply, LKE, LG&E and KU)

In November 2010, LKE, LG&E and KU issued debt totaling $2.9 billion, of which $100 million was used to return capital to PPL. The majority of these proceeds, together with a borrowing by LG&E under its available credit facilities were applied to repay borrowings from a PPL Energy Supply subsidiary. Such borrowings were incurred to permit LKE to repay certain indebtedness owed to affiliates of E.ON AG upon the closing of the acquisition. In November 2010, PPL Energy Supply used the above-referenced amounts received from LKE, together with other cash on hand, to repay approximately $3.0 billion of its October 2010 borrowing under existing credit facilities. See Note 7 for additional information.

(PPL and PPL Energy Supply)

To ensure adequate funds were available for the acquisition, in July 2010, PPL Energy Supply monetized certain full-requirement sales contracts that resulted in cash proceeds of $249 million. See "Commodity Price Risk (Non-trading) -

Monetization of Certain Full-Requirement Sales Contracts" in Note 19 for additional information. Additionally, PPL Energy Supply received proceeds in 2011 from the sale of certain non-core generation facilities, which were used to repay the short-term borrowings drawn on existing credit facilities. See "Sale of Certain Non-core Generation Facilities" in Note 9 for additional information.

As a result of the monetization of these full-requirement sales contracts, coupled with the expected net proceeds from the then-anticipated sale of these non-core generation facilities, debt that had been planned to be issued by PPL Energy Supply in late 2010 was no longer needed. Therefore, hedge accounting associated with interest rate swaps entered into by PPL in anticipation of a debt issuance by PPL Energy Supply was discontinued. Net losses of $(29) million, or $(19) million after tax, were reclassified from AOCI to "Other Income (Expense) - net" on PPL's 2010 Statement of Income.

(LKE, LG&E and KU)

On November 1, 2010, PPL completed its acquisition of LKE and its subsidiaries. The push-down basis of accounting was used to record the fair value adjustments of assets and liabilities on LKE at the acquisition date. PPL paid cash consideration for the equity interests in LKE and its subsidiaries of $2,493 million and provided a capital contribution on November 1, 2010, of $1,565 million; included within this was the consideration paid of $1,702 million for LG&E and $2,656 million for KU. The allocation of the purchase price was based on the fair value of assets acquired and liabilities assumed.

The push-down accounting for the fair value of assets acquired and liabilities assumed was as follows (in millions).

	LKE	LG&E	KU
Current assets	$ 969	$ 503	$ 341
Investments	31	1	30
PP&E	7,469	2,935	4,531
Other intangibles (current and noncurrent)	427	226	201
Regulatory and other noncurrent assets	689	416	274
Current liabilities, excluding current portion of long-term debt	(516)	(420)	(367)
PPL affiliate indebtedness	(4,349)	(485)	(1,331)
Long-term debt (current and noncurrent)	(934)	(580)	(352)
Other noncurrent liabilities	(2,289)	(1,283)	(1,278)
Net identifiable assets acquired	1,497	1,313	2,049
Goodwill	996	389	607
Net assets acquired	2,493	1,702	2,656
Capital Contribution on November 1, 2010, to replace affiliate indebtedness	1,565		
Beginning equity balance on November 1, 2010	$ 4,058	$ 1,702	$ 2,656

Goodwill represents value paid for the rate regulated businesses of LG&E and KU, which are located in a defined service area with a constructive regulatory environment, which provides for future investment, earnings and cash flow growth, as well as the talented and experienced workforce. LG&E's and KU's franchise values are being attributed to the going concern value of the business, and thus were recorded as goodwill rather than a separately identifiable intangible asset. None of the goodwill recognized is deductible for income tax purposes or included in customer rates.

Adjustments to LKE's, LG&E's and KU's assets and liabilities that contributed to goodwill are as follows:

The fair value adjustment on the EEI investment was calculated using the discounted cash flow valuation method. The result was an increase in KU's value of the investment in EEI; the fair value of EEI was calculated to be $30 million and a fair value adjustment of $18 million was recorded on KU. The fair value adjustment to EEI is amortized over the expected remaining useful life of plant and equipment at EEI, which is estimated to be over 20 years.

The pollution control bonds, excluding the reacquired bonds, had a fair value adjustment of $7 million for LG&E and $1 million for KU. All variable bonds were valued at par while the fixed rate bonds were valued with a yield curve based on average credit spreads for similar bonds.

As a result of the purchase accounting associated with the acquisition, the following items had a fair value adjustment but no effect on goodwill as the offset was either a regulatory asset or liability. The regulatory asset or liability has been recorded to eliminate any ratemaking impact of the fair value adjustments:

- The value of OVEC was determined to be $126 million based upon an announced transaction by another owner. LG&E and KU's combined investment in OVEC was not significant and the power purchase agreement was valued at $87 million for LG&E and $39 million for KU. An intangible asset was recorded with the offset to regulatory liability and is amortized using the units of production method until March 2026, the expiration date of the agreement at the date of the acquisition.

- LG&E and KU each recorded an emission allowance intangible asset and a regulatory liability as the result of adjusting the fair value of the emission allowances at LG&E and KU. The emission allowance intangible of $8 million at LG&E and $9 million at KU represents allocated and purchased sulfur dioxide and nitrogen oxide emission allowances that were unused as of the valuation date or allocated for use in future years. LG&E and KU had previously recorded emission allowances as other materials and supplies. To conform to PPL's accounting policy all emission allowances are now recorded as intangible assets. The emission allowance intangible asset is amortized as the emission allowances are consumed, which is expected to occur through 2040.

- Coal contract intangible assets were recorded at LG&E for $124 million and at KU for $145 million as well as a non-current liability of $11 million for LG&E and $22 million for KU on the Balance Sheets. An offsetting regulatory asset was recorded for those contracts with unfavorable terms relative to market. An offsetting regulatory liability was recorded for those contracts that had favorable terms relative to market. All coal contracts held by LG&E and KU, wherein it had entered into arrangements to buy amounts of coal at fixed prices from counterparties at a future date, were fair valued. The intangible assets and other liabilities, as well as the regulatory assets and liabilities, are being amortized over the same terms as the related contracts, which expire through 2016.

- Adjustments on November 1, 2010 were made to record LKE pension assets at fair value, remeasure its pension and postretirement benefit obligations at current discount rates and eliminate accumulated other comprehensive income (loss). An increase of $4 million in the liability balances of LG&E and KU was recorded, due to the lowering of the discount rate; this was credited to their respective pension and postretirement liability balances with offsetting adjustments made to the related regulatory assets and liabilities.

The fair value of intangible assets and liabilities (e.g. contracts that have favorable or unfavorable terms relative to market), including coal contracts and power purchase agreements, as well as emission allowances, have been reflected on the Balance Sheets with offsetting regulatory assets or liabilities. Prior to the acquisition, LG&E and KU recovered the cost of the coal contracts, power purchases and emission allowances and this rate treatment will continue after the acquisition. As a result, management believes the regulatory assets and liabilities created to offset the fair value adjustments meet the recognition criteria established by existing accounting guidance and eliminate any ratemaking impact of the fair value adjustments. LG&E's and KU's customer rates will continue to reflect these items (e.g. coal, purchased power, emission allowances) at their original contracted prices.

LG&E and KU also considered whether a separate fair value should be assigned to LG&E's and KU's rights to operate within its various electric and natural gas distribution service areas but concluded that these rights only provided the opportunity to earn a regulated return and barriers to market entry, which in management's judgment is not considered a separately identifiable intangible asset under applicable accounting guidance; rather, it is considered going-concern value, or goodwill.

11. Leases

Lessee Transactions

(PPL, LKE, LG&E and KU)

E.W. Brown Combustion Turbines

LG&E and KU are participants in a sale-leaseback transaction involving two combustion turbines at the E.W. Brown generating plant. In December 1999, after selling their interests in the combustion turbines, LG&E and KU entered into an 18-year lease of the turbines. LG&E and KU provided funds to fully defease the lease and have the right to exercise an early purchase option contained in the lease after 15.5 years, which will occur in 2015. The financial statement treatment of this transaction is the same as if LG&E and KU had retained their ownership interest. Since the lease was defeased, there are no remaining minimum lease payments and all related PP&E is reflected on the Balance Sheets. See Note 14 for the balances included on the Balance Sheets related to this transaction. Depreciation expense was insignificant for all periods presented.

Upon a default under the lease, LG&E and KU are obligated to pay to the lessor their share of certain amounts. Primary events of default include loss or destruction of the combustion turbines, failure to insure or maintain the combustion turbines and unwinding of the transaction due to governmental actions. No events of default currently exist with respect to the lease. Upon any termination of the lease, whether by default or expiration of its term, title to the combustion turbines reverts to LG&E and KU. The maximum aggregate amount at December 31, 2011 that could be required to be paid by PPL and LKE is $6 million, by LG&E is $2 million and by KU is $4 million. LKE has guaranteed the payment of these potential default payments of LG&E and KU.

(PPL and PPL Energy Supply)

Tolling Agreement

In 2008, PPL EnergyPlus acquired the rights to an existing long-term tolling agreement for the capacity and energy of Ironwood. Under the agreement, PPL EnergyPlus has control over the plant's dispatch into the electricity grid and will supply the natural gas necessary to operate the plant. The tolling agreement extends through 2021 and is considered to be an operating lease for accounting purposes. The fixed payments under the tolling agreement are subject to adjustment based upon changes to the facility capacity rating, which may occur up to twice per year. Certain costs within the tolling agreement, primarily non-lease costs, are subject to escalation.

Colstrip Generating Plant

In July 2000, PPL Montana sold its interest in the Colstrip generating plants to owner lessors who lease back to PPL Montana, under four 36-year non-cancelable leases, a 50% interest in Colstrip Units 1 and 2 and a 30% interest in Unit 3. This transaction is accounted for as a sale-leaseback and classified as an operating lease. PPL Montana is responsible for its share of the operating expenses associated with its leasehold interests. See Note 14 for information on the sharing agreement for Colstrip Units 3 and 4. PPL Montana currently amortizes material leasehold improvements over no more than the remaining life of the original leases; however, the leases provide two renewal options based on the economic useful life of the generation assets. The leases place certain restrictions on PPL Montana's ability to incur additional debt, sell assets and declare dividends and require PPL Montana to maintain certain financial ratios related to cash flow and net worth. There are no residual value guarantees in these leases. However, upon an event of default or an event of loss, PPL Montana could be required to pay a termination value of amounts sufficient to allow the lessor to repay amounts owing on the lessor notes and make the lessor whole for its equity investment and anticipated return on investment. The events of default include payment defaults, breaches of representations or covenants, acceleration of other indebtedness of PPL Montana, change in control of PPL Montana and certain bankruptcy events. The termination value was estimated to be $327 million at December 31, 2011.

Kerr Dam

At December 31, 2011, PPL Montana continued to participate in a lease arrangement with the Confederated Salish and Kootenai Tribes of the Flathead Nation. Under a joint operating license issued by the FERC, PPL Montana is responsible to make payments to the tribes for the use of their property. This agreement, subject to escalation based upon inflation, extends until the end of the license term in 2035. Between 2015 and 2025, the tribes have the option to purchase, hold and operate the project, which would result in the termination of this leasing arrangement.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Other Leases

PPL and its subsidiaries have entered into various agreements for the lease of office space, vehicles, land gas storage and other equipment.

Rent - Operating Leases

Rent expense for operating leases was as follows:

	2011	2010	2009
PPL	$ 109	$ 90	$ 86
PPL Energy Supply	84	87	86

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
LKE	$ 18	$ 3	$ 14	$ 16
LG&E	7	1	5	6
KU	10	2	8	10

Total future minimum rental payments for all operating leases are estimated to be:

	PPL	PPL Energy Supply	LKE	LG&E	KU
2012	$ 125	$ 104	$ 15	$ 5	$ 9
2013	127	109	13	5	7
2014	123	109	11	4	6
2015	105	96	8	3	5
2016	57	53	3	1	2
Thereafter	252	238	6	1	4
Total	$ 789	$ 709	$ 56	$ 19	$ 33

12. Stock-Based Compensation

(PPL, PPL Energy Supply, PPL Electric and LKE)

Under the PPL Incentive Compensation Plan (ICP) and the Incentive Compensation Plan for Key Employees (ICPKE) (together, the Plans), restricted shares of PPL common stock, restricted stock units, performance units and stock options may be granted to officers and other key employees of PPL, PPL Energy Supply, PPL Electric, LKE and other affiliated companies. Awards under the Plans are made by the Compensation, Governance and Nominating Committee (CGNC) of the PPL Board of Directors, in the case of the ICP, and by the PPL Corporate Leadership Council (CLC), in the case of the ICPKE.

The ICP limits the total number of awards that may be granted under it after April 23, 1999 to 15,769,431. The ICPKE limits the total number of awards that may be granted under it after April 25, 2003 to 14,199,796. In addition, each Plan limits the number of shares available for awards in any calendar year to 2% of the outstanding common stock of PPL on the first day of such calendar year. The maximum number of options that can be awarded under each Plan to any single eligible employee in any calendar year is three million shares. Any portion of these options that has not been granted may be carried over and used in any subsequent year. If any award lapses, is forfeited or the rights of the participant terminate, the shares of PPL common stock underlying such an award are again available for grant. Shares delivered under the Plans may be in the form of authorized and unissued PPL common stock, common stock held in treasury by PPL or PPL common stock purchased on the open market (including private purchases) in accordance with applicable securities laws.

Restricted Stock and Restricted Stock Units

Restricted shares of PPL common stock are outstanding shares with full voting and dividend rights. Restricted stock awards are granted as a retention award for select key executives and vest when the recipient reaches a certain age or meets service or other criteria set forth in the executive's restricted stock award agreement. The shares are subject to forfeiture or accelerated payout under Plan provisions for termination, retirement, disability and death of employees. Restricted shares vest fully if control of PPL changes, as defined by the Plans.

The Plans allow for the grant of restricted stock units. Restricted stock units are awards based on the fair value of PPL common stock on the date of grant. Actual PPL common shares will be issued upon completion of a vesting period, generally three years. The fair value of restricted stock units granted is recognized on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value of restricted stock units granted to retirement-eligible employees is recognized immediately upon the date of grant. Recipients of restricted stock units may also be granted the right to receive dividend equivalents through the end of the restriction period or until the award is forfeited. Restricted stock units are subject to forfeiture or accelerated payout under the Plan provisions for termination, retirement, disability and death of employees. Restricted stock units vest fully if control of PPL changes, as defined by the Plans.

The weighted-average grant date fair value of restricted stock and restricted stock units granted was:

	2011	2010	2009
PPL	$ 25.25	$ 28.93	$ 29.07
PPL Energy Supply	25.14	29.49	28.49
PPL Electric	25.09	29.40	29.49
LKE		26.31	

Restricted stock and restricted stock unit activity for 2011 was:

	Restricted Shares/Units	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	1,663,122	$ 31.22
Granted	895,980	25.25
Vested	(495,917)	37.81
Forfeited	(23,150)	28.56
Nonvested, end of period	2,040,035	27.03
PPL Energy Supply		
Nonvested, beginning of period	580,417	$ 31.33
Transferred	(86,690)	22.89
Granted	326,120	25.14
Vested	(136,767)	41.11
Forfeited	(17,900)	28.51
Nonvested, end of period	665,180	27.30
PPL Electric		
Nonvested, beginning of period	169,325	$ 31.20
Transferred	13,160	32.92
Granted	126,100	25.09
Vested	(51,740)	36.94
Forfeited	(5,250)	28.76
Nonvested, end of period	251,595	27.10
LKE		
Nonvested, beginning of period	174,170	$ 26.31
Vested	(28,960)	26.31
Nonvested, end of period	145,210	26.31

Substantially all restricted stock and restricted stock unit awards are expected to vest.

The total fair value of restricted stock/units vesting for the years ended December 31 was:

	2011	2010	2009
PPL	$ 19	$ 15	$ 22
PPL Energy Supply	6	7	12
PPL Electric	2	2	2
LKE	1		

Performance Units

Performance units are intended to encourage and award future performance. Performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable performance goal. Performance is determined based on total shareowner return during a three-year performance period. At the end of the period, payout is determined by comparing PPL's performance to the total shareowner return of the companies included in an index group, in this case the S&P Electric Utilities Index. Awards granted in 2010 and 2009 were payable on a graduated basis within the following ranges: if PPL's performance is at or above the 85th percentile of the index group, the award is paid at 200% of the Target Award; at the 50th percentile of the index group, the award is paid at 100% of the Target Award; at the 40th percentile of the index group, the award is paid at 50% of the Target Award; and below the 40th percentile, no award is payable. Awards granted in 2011 provide for payment at 25% of the Target Award if performance falls below the 40th percentile of the index group. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the determination of the CGNC of whether the performance goals have been achieved. Under the Plan provisions, performance units are subject to forfeiture upon termination of employment except for retirement, disability or death of an employee, in which case the total performance units remain outstanding and are eligible for vesting through the conclusion of the performance period. The fair value of performance units granted is recognized on a straight-line basis over the three-year performance period. Performance units vest on a pro rata basis if control of PPL changes, as defined by the Plan.

The fair value of each performance unit granted was estimated using a Monte Carlo pricing model that considers stock beta, a risk-free interest rate, expected stock volatility and expected life. The stock beta was calculated comparing the risk of the individual securities to the average risk of the companies in the index group. The risk-free interest rate reflects the yield on a U.S. Treasury bond commensurate with the expected life of the performance unit. Volatility over the expected term of the performance unit is calculated using daily stock price observations for PPL and all companies in the index group and is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL and companies in the index group. PPL had used historical volatility to value its performance units in 2010 and 2009. Beginning in 2011, PPL began using a mix of historic and implied volatility in response to the significant changes in its business model, moving from a primarily unregulated to a primarily regulated business model, as a result of the acquisitions of LKE and WPD Midlands.

The weighted-average assumptions used in the model were:

	2011	2010	2009
Risk-free interest rate	1.00%	1.41%	1.11%
Expected stock volatility	23.40%	34.70%	31.30%
Expected life	3 years	3 years	3 years

The weighted-average grant date fair value of performance units granted was:

	2011	2010	2009
PPL	$ 29.67	$ 34.06	$ 39.76
PPL Energy Supply	29.68	34.16	38.18
PPL Electric	29.57	33.54	39.95
LKE	29.20		

Performance unit activity for 2011 was:

	Performance Units	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	286,040	$ 39.40
Granted	182,953	29.67
Forfeited	(70,384)	48.61
Nonvested, end of period	398,609	33.31
PPL Energy Supply		
Nonvested, beginning of period	77,864	$ 39.08
Transferred	(18,081)	40.37
Granted	32,034	29.68
Forfeited	(16,750)	46.95
Nonvested, end of period	75,067	33.00
PPL Electric		
Nonvested, beginning of period	22,231	$ 38.34
Granted	14,730	29.57
Forfeited	(4,153)	48.57
Nonvested, end of period	32,808	33.11
LKE		
Nonvested, beginning of period		
Granted	26,893	$ 29.20
Nonvested, end of period	26,893	29.20

Stock Options

Under the Plans, stock options may be granted with an option exercise price per share not less than the fair value of PPL's common stock on the date of grant. Options outstanding at December 31, 2011, become exercisable in equal installments over a three-year service period beginning one year after the date of grant, assuming the individual is still employed by PPL or a subsidiary. The CGNC and CLC have discretion to accelerate the exercisability of the options, except that the exercisability of an option issued under the ICP may not be accelerated unless the individual remains employed by PPL or a subsidiary for one year from the date of grant. All options expire no later than ten years from the grant date. The options become exercisable immediately if control of PPL changes, as defined by the Plans. The fair value of options granted is recognized on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value of options granted to retirement-eligible employees is recognized immediately upon the date of grant.

The fair value of each option granted is estimated using a Black-Scholes option-pricing model. PPL uses a risk-free interest rate, expected option life, historical volatility and dividend yield to value its stock options. The risk-free interest rate reflects the yield for a U.S. Treasury Strip available on the date of grant with constant rate maturity approximating the option's expected life. Expected life is calculated based on historical exercise behavior. Volatility over the expected term of the options is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL's volatility in those prior periods. Management's expectations for future volatility, considering potential changes to PPL's business model and other economic conditions, are also reviewed in addition to the historical data to determine the final volatility assumption. PPL had used historical volatility to value its stock options granted in 2010 and 2009. Beginning in 2011, PPL began using a mix of historic and implied volatility in response to the significant changes in its business model, moving from a primarily unregulated to a primarily regulated business model, as a result of the acquisitions of LKE and WPD Midlands. The dividend yield is based on several factors, including PPL's most recent dividend payment, as of the grant date and the forecasted stock price through 2012. The assumptions used in the model were:

	2011	2010	2009
Risk-free interest rate	2.34%	2.52%	2.07%
Expected option life	5.71 years	5.43 years	5.25 years
Expected stock volatility	21.60%	28.57%	26.06%
Dividend yield	5.93%	5.61%	3.48%

The weighted-average grant date fair value of options granted was:

	2011	2010	2009
PPL	$ 2.47	$ 4.70	$ 5.55
PPL Energy Supply	2.47	4.73	5.55
PPL Electric	2.47	4.62	5.65
LKE	2.47		

Stock option activity for 2011 was:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Total Intrinsic Value
PPL				
Outstanding at beginning of period	5,603,981	$ 32.31		
Granted	2,068,080	25.78		
Exercised	(69,220)	21.00		
Forfeited	(72,643)	29.16		
Outstanding at end of period	7,530,198	30.65	6.5	$ 12
Options exercisable at end of period	4,493,789	32.74	5.0	5
PPL Energy Supply				
Outstanding at beginning of period	1,661,026	$ 31.92		
Transferred	(296,705)	31.86		
Granted	383,990	25.80		
Exercised	(31,280)	21.58		
Forfeited	(26,878)	28.25		
Outstanding at end of period	1,690,153	30.79	6.1	$ 2
Options exercisable at end of period	1,115,175	32.34	4.8	1
PPL Electric				
Outstanding at beginning of period	317,150	$ 33.53		
Granted	168,120	25.74		
Forfeited	(24,760)	26.66		
Outstanding at end of period	460,510	31.05	7.5	$ 1
Options exercisable at end of period	207,612	35.36	6.1	
LKE				
Outstanding at beginning of period				
Granted	329,600	$ 25.77		
Outstanding at end of period	329,600	25.77	9.1	$ 1

PPL received $1 million in cash from stock options exercised in 2011. The related tax savings were not significant for 2011. Substantially all stock option awards are expected to vest.

The total intrinsic value of stock options exercised for the years ended December 31 2011, 2010, and 2009 was not significant.

Compensation Expense

Compensation expense for restricted stock, restricted stock units, performance units and stock options accounted for as equity awards was as follows:

	2011	2010	2009
PPL (a)	$ 36	$ 26	$ 23
PPL Energy Supply (b)	16	20	17
PPL Electric (c)	8	6	5
LKE (d)	5		

(a) Income tax benefits of $15 million, $11 million and $9 million.
(b) Income tax benefits of $6 million, $8 million and $7 million.
(c) Income tax benefits of $3 million, $3 million and $2 million.
(d) Income tax benefits of $2 million.

The income tax benefit PPL realized from stock-based awards vested or exercised for 2011 was not significant.

At December 31, 2011, unrecognized compensation expense related to nonvested restricted stock, restricted stock units, performance units and stock option awards was:

	Unrecognized Compensation Expense	Weighted-Average Period for Recognition
PPL	$ 19	1.7 years
PPL Energy Supply	6	1.7 years
PPL Electric	3	2.3 years
LKE	2	1.2 years

13. Retirement and Postemployment Benefits

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E, and KU)

Defined Benefits

Until January 1, 2012, the majority of PPL's subsidiaries domestic employees were eligible for pension benefits under non-contributory defined benefit pension plans with benefits based on length of service and final average pay, as defined by the plans. Effective January 1, 2012, PPL's domestic qualified pension plans were closed to newly hired salaried employees. Newly hired bargaining unit employees will continue to be eligible under the plans based on their collective bargaining agreements. Salaried employees hired on or after January 1, 2012 will be eligible to participate in the new PPL Retirement Savings Plan, a 401(k) savings plan with enhanced employer matching. PPL does not expect a significant near-term cost impact as a result of the change.

Certain employees may also be eligible for pension enhancements in the form of special termination benefits under PPL's separation plan. See "Separation Benefits" below for additional information regarding PPL's separation plan.

The defined benefit pension plans of LKE and its subsidiaries were closed to new salaried and bargaining unit employees hired after December 31, 2005. Employees hired after December 31, 2005 receive additional company contributions above the standard matching contributions to their savings plans.

Until January 1, 2012, employees of PPL Montana were eligible for pension benefits under a cash balance pension plan. Effective January 1, 2012, that plan was closed to newly hired salaried employees. Newly hired bargaining unit employees will continue to be eligible under the plan based on their collective bargaining agreements. Salaried employees hired on or after January 1, 2012 will be eligible to participate in the new PPL Retirement Savings Plan, a 401(k) savings plan with enhanced employer matching. PPL Montana does not expect a significant near-term cost impact as a result of the change.

Employees of certain of PPL Energy Supply's mechanical contracting companies are eligible for benefits under multiemployer plans sponsored by various unions.

Effective April 1, 2010, PPL WW's principal pension plan was closed to most new employees, except for those meeting specific grandfathered participation rights. New employees not eligible to participate in the plan are offered benefits under a defined contribution plan. WPD Midlands was acquired by PPL WEM on April, 1, 2011. WPD Midlands' defined benefit plan had been closed to new members, except for those meeting specific grandfathered participation rights, prior to acquisition.

PPL and certain of its subsidiaries also provide supplemental retirement benefits to executives and other key management employees through unfunded nonqualified retirement plans.

The majority of employees of PPL's domestic subsidiaries will become eligible for certain health care and life insurance benefits upon retirement through contributory plans. Postretirement health benefits are paid from 401(h) accounts established within the PPL Services Corporation Master Trust, LG&E and KU Energy LLC Pension Plan Trusts, funded VEBA trusts and company funds. Postretirement benefits under the PPL Montana Retiree Health Plan are paid from company assets. WPD does not sponsor any postretirement benefit plans other than pensions.

As a result of PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, the U.K. pension plans were removed from PPL Energy Supply's balance sheet in the first quarter of 2011. No future contributions to the plans are expected to be made by PPL Energy Supply beginning in 2011. See Note 9 for additional information.

The following disclosures distinguish between the domestic (U.S.) and WPD (U.K.) pension plans.

	Pension Benefits								
	U.S.			U.K.			Other Postretirement Benefits		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
PPL									
Net periodic defined benefit costs (credits):									
Service cost	$ 95	$ 64	$ 60	$ 44	$ 17	$ 9	$ 12	$ 8	$ 6
Interest cost	217	159	145	282	151	156	33	28	29
Expected return on plan assets	(245)	(184)	(169)	(338)	(202)	(189)	(23)	(20)	(18)
Amortization of:									
Transition (asset) obligation			(5)				2	5	9
Prior service cost	24	21	19	4	4	4		4	9
Actuarial (gain) loss	30	8	3	57	48	2	6	6	2
Net periodic defined benefit costs (credits) prior to settlement charges and termination benefits	121	68	53	49	18	(18)	30	31	37
Settlement charges (a)			2						
Termination benefits (b)			9	50					
Net periodic defined benefit costs (credits)	$ 121	$ 68	$ 64	$ 99	$ 18	$ (18)	$ 30	$ 31	$ 37
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:									
Settlements			$ (2)						
Current year net (gain) loss	$ 117	$ 142	102	$ 152	$ 17	$ 403	$ (9)	$ 20	$ 32
Current year prior service cost (credit)	8		1				10	(71)	(4)
Amortization of:									
Transition asset			5				(2)	(5)	(9)
Prior service cost	(24)	(21)	(19)	(4)	(4)	(4)		(4)	(8)
Actuarial gain (loss)	(30)	(7)	(3)	(57)	(48)	(2)	(6)	(6)	(2)
Acquisition of regulatory assets/ liabilities:									
Transition obligation								4	
Prior service cost		31						6	
Actuarial (gain) loss		303						(2)	
Total recognized in OCI and regulatory assets/liabilities (c) (d)	71	448	84	91	(35)	397	(7)	(58)	9
Total recognized in net periodic benefit costs, OCI and regulatory assets/liabilities (d)	$ 192	$ 516	$ 148	$ 190	$ (17)	$ 379	$ 23	$ (27)	$ 46

(a) Includes the settlement of the pension plan of PPL's former mining subsidiary, PA Mines, LLC in 2009.
(b) Related to the 2011 WPD Midlands separations in the U.K. and a 2009 U.S. cost reduction initiative.

(c) For PPL's U.S. pension benefits, the amounts recognized in OCI for 2011, 2010 and 2009 were $47 million, $84 million and $51 million. The amounts recognized in regulatory assets/liabilities for 2011, 2010 and 2009 were $24 million, $364 million and $33 million. In total, the amounts recognized in either OCI or regulatory assets/liabilities for 2011, 2010 and 2009 were $71 million, $448 million and $84 million.

For other postretirement benefits, the amounts recognized in OCI for 2011, 2010 and 2009 were $(6) million, $(40) million and $6 million. The amounts recognized in regulatory assets/liabilities for 2011, 2010 and 2009 were $(1) million, $(18) million and $3 million. In total, the amounts recognized in either OCI or regulatory assets/liabilities for 2011, 2010 and 2009 were $(7) million, $(58) million and $9 million.

(d) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. As a result, WPD does not record regulatory assets/liabilities.

The estimated amounts to be amortized from AOCI and regulatory assets/liabilities into net periodic benefit costs in 2012 are as follows:

	Pension Benefits U.S.	Pension Benefits U.K.	Other Postretirement Benefits
Transition obligation			$ 2
Prior service cost	$ 24	$ 4	1
Actuarial loss	42	79	4
Total	$ 66	$ 83	$ 7
Amortization from Balance Sheet:			
AOCI	$ 27	$ 83	$ 2
Regulatory assets/liabilities	39		5
Total	$ 66	$ 83	$ 7

	Pension Benefits								
	U.S.			U.K. (a)			Other Postretirement Benefits		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
PPL Energy Supply									
Net periodic defined benefit costs (credits):									
Service cost	$ 5	$ 4	$ 4		$ 17	$ 9	$ 1	$ 1	$ 1
Interest cost	7	7	6		151	156	1	1	1
Expected return on plan assets	(9)	(7)	(6)		(202)	(189)			
Amortization of:									
Prior service cost					4	4			
Actuarial (gain) loss	2	2	2		48	2			
Net periodic defined benefit costs (credits) prior to settlement charges	5	6	6		18	(18)	2	2	2
Settlement charges (b)			2						
Net periodic defined benefit costs (credits)	$ 5	$ 6	$ 8		$ 18	$ (18)	$ 2	$ 2	$ 2
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI:									
Curtailments									
Settlements			$ (2)						
Current year net (gain) loss	$ 7	$ 4	4		$ 17	$ 403	$ (2)		
Amortization of:									
Prior service cost					(4)	(4)			
Actuarial gain (loss)	(2)	(2)	(2)		(48)	(2)			
Total recognized in OCI	5	2			(35)	397	(2)		
Total recognized in net periodic benefit costs and OCI	$ 10	$ 8	$ 8		$ (17)	$ 379	$	$ 2	$ 2

(a) In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Supply's parent. See Note 9 for additional information.
(b) Includes the settlement of the pension plan of PPL Energy Supply's former mining subsidiary, PA Mines, LLC in 2009.

Actuarial loss of $2 million related to PPL Energy Supply's U.S. pension plan is expected to be amortized from AOCI into net periodic benefit costs in 2012.

The following table provides the components of net periodic benefit cost for LKE's pension and other postretirement benefit plans for January 1, 2011 through December 31, 2011, and November 1, 2010 through December 31, 2010, for the Successor, and January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor.

	Pension Benefits				Other Postretirement Benefits			
	Successor		Predecessor		Successor		Predecessor	
	2011	2010	2010	2009	2011	2010	2010	2009
LKE								
Net periodic defined benefit costs (credits):								
Service cost	$ 24	$ 4	$ 17	$ 20	$ 4	$ 1	$ 3	$ 4
Interest cost	67	11	54	62	10	1	9	11
Expected return on plan assets	(64)	(9)	(45)	(47)	(3)		(2)	(2)
Amortization of:								
Transition obligation					2		1	2
Prior service cost	5	1	7	9	2		2	3
Actuarial (gain) loss	24	5	16	27				(1)
Net periodic defined benefit costs prior to settlement charges and curtailment charges	56	12	49	71	15	2	13	17
Settlement charges				3				
Curtailment charges (credits)				5				(2)
Net periodic defined benefit costs	$ 56	$ 12	$ 49	$ 79	$ 15	$ 2	$ 13	$ 15
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:								
Curtailments				$ (2)				$ (1)
Settlements				(2)				
Current year net (gain) loss	$ 29	$ (22)	$ 96	(66)	$ (3)	$ (2)	$ 3	2
Current year prior service cost	8				11			
Amortization of:								
Transition asset					(2)		(2)	(2)
Prior service cost	(5)	(1)	(7)	(9)	(2)		(1)	(2)
Actuarial gain (loss)	(24)	(5)	(16)	(25)				1
Total recognized in OCI and regulatory assets/liabilities (a)	8	(28)	73	(104)	4	(2)		(2)
Total recognized in net periodic benefit costs, OCI and regulatory assets/liabilities	$ 64	$ (16)	$ 122	$ (25)	$ 19	$	$ 13	$ 13

(a) For LKE's pension and other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities are as follows at December 31, 2011 and 2010, for the Successor, and at October 31, 2010, and December 31, 2009, for the Predecessor.

	Pension Benefits				Other Postretirement Benefits			
	Successor		Predecessor		Successor		Predecessor	
	2011	2010	2010	2009	2011	2010	2010	2009
OCI	$ 1	$ (8)	$ 32	$ (27)	$ 2	$ (1)	$ (1)	$ (2)
Regulatory assets/liabilities	7	(20)	41	(77)	2	(1)	1	
Total recognized in OCI and regulatory assets/liabilities	$ 8	$ (28)	$ 73	$ (104)	$ 4	$ (2)	$	$ (2)

The estimated amounts to be amortized from AOCI and regulatory assets/liabilities into net periodic benefit costs for LKE in 2012 are as follows.

	Pension Benefits	Other Postretirement Benefits
Transition obligation		$ 2
Prior service cost	$ 5	3
Actuarial loss	21	
Total	$ 26	$ 5
Amortization from Balance Sheet:		
AOCI		$ 1
Regulatory assets/liabilities	$ 26	4
Total	$ 26	$ 5

The following table provides the components of net periodic benefit cost for LG&E's pension benefit plan for January 1, 2011 through December 31, 2011, and November 1, 2010 through December 31, 2010, for the Successor, and January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor.

	Pension Benefits			
	Successor		Predecessor	
	2011	2010	2010	2009
LG&E				
Net periodic defined benefit costs (credits):				
Service cost	$ 2		$ 1	$ 2
Interest cost	14	$ 2	12	15
Expected return on plan assets	(18)	(3)	(13)	(14)
Amortization of:				
Prior service cost	2	1	2	2
Actuarial loss	11	2	6	8
Net periodic defined benefit costs	$ 11	$ 2	$ 8	$ 13
Other Changes in Plan Assets and Benefit Obligations Recognized in Regulatory Assets - Gross:				
Current year net (gain) loss	$ 15	$ (5)	$ 18	$ (14)
Current year prior service cost	9			
Amortization of:				
Prior service cost	(2)		(2)	(3)
Actuarial (loss)	(11)	(2)	(6)	(8)
Total recognized in regulatory assets	11	(7)	10	(25)
Total recognized in net periodic benefit costs and regulatory assets	$ 22	$ (5)	$ 18	$ (12)

The estimated amounts to be amortized from regulatory assets into net periodic benefit costs for LG&E in 2012 are as follows.

	Pension Benefits
Prior service cost	$ 2
Actuarial loss	10
Total	$ 12

Net periodic defined benefit costs (credits) charged to operating expense, excluding amounts charged to construction and other non-expense accounts were:

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K. (a)					
	2011	2010	2009	2011	2010	2009	2011	2010	2009
PPL	$ 98	$ 59	$ 56	$ 82	$ 16	$ (17)	$ 24	$ 27	$ 31
PPL Energy Supply (b)	27	24	26		16	(17)	7	12	14
PPL Electric (c)	14	12	14				4	8	10

(a) As a result of PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, these amounts are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on PPL Energy Supply's Statements of Income. See Note 6 for additional information.

(b) Includes costs for the specific plans it sponsors and the following allocated costs of defined benefit plans sponsored by PPL Services, based on PPL Energy Supply's participation in those plans, which management believes are reasonable.

	Pension Benefits			Other Postretirement Benefits		
	2011	2010	2009	2011	2010	2009
PPL Energy Supply	$ 23	$ 19	$ 18	$ 6	$ 10	$ 13

(c) PPL Electric does not directly sponsor any defined benefit plans. PPL Electric was allocated these costs of defined benefit plans sponsored by PPL Services, based on its participation in those plans, which management believes are reasonable.

The following table provides net periodic benefit costs charged to operating expense for January 1, 2011 through December 31, 2011, and November 1, 2010 through December 31, 2010, for the Successor, and January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor.

	Pension Benefits				Other Postretirement Benefits			
	Successor		Predecessor		Successor		Predecessor	
	2011	2010	2010	2009	2011	2010	2010	2009
LKE	$ 40	$ 9	$ 37	$ 49	$ 11	$ 2	$ 9	$ 13
LG&E (d)	16	3	12	19	5	1	4	6
KU (e)	10	2	8	12	4	1	3	4

(d) Includes costs for the specific plans it sponsors and the following allocated costs of defined benefit plans sponsored by LKE, based on its participation in those plans, which management believes are reasonable.

	Pension Benefits				Other Postretirement Benefits			
	2011	2010	2010	2009	2011	2010	2010	2009
	Successor		Predecessor		Successor		Predecessor	
LG&E	$ 7	$ 1	$ 6	$ 9	$ 5	$ 1	$ 4	$ 6

(e) KU does not directly sponsor any defined benefit plans. KU was allocated these costs of defined benefit plans sponsored by LKE, based on its participation in those plans, which management believes are reasonable.

The following weighted-average assumptions were used in the valuation of the benefit obligations at December 31.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.					
	2011	2010	2009	2011	2010	2009	2011	2010	2009
PPL									
Discount rate	5.06%	5.42%	6.00%	5.24%	5.54%	5.55%	4.80%	5.14%	5.81%
Rate of compensation increase	4.02%	4.88%	4.75%	4.00%	4.00%	4.00%	4.00%	4.90%	4.75%
PPL Energy Supply									
Discount rate	5.12%	5.47%	6.00%		5.54%	5.55%	4.60%	4.95%	5.55%
Rate of compensation increase	4.00%	4.75%	4.75%		4.00%	4.00%	4.00%	4.75%	4.75%

The following table provides the weighted-average assumptions used in the valuation of the benefit obligations at December 31, 2011 and 2010, for the Successor, and at October 31, 2010 and December 31, 2009, for the Predecessor.

	Pension Benefits				Other Postretirement Benefits			
	Successor		Predecessor		Successor		Predecessor	
	2011	2010	2010	2009	2011	2010	2010	2009
LKE								
Discount rate	5.08%	5.49%	5.42%	6.11%	4.78%	5.12%	4.96%	5.82%
Rate of compensation increase	4.00%	5.25%	5.25%	5.25%	4.00%	5.25%	5.25%	5.25%
LG&E								
Discount rate	5.00%	5.39%	5.32%	6.08%				
Rate of compensation increase	N/A	N/A	N/A	N/A				

The following weighted-average assumptions were used to determine the net periodic benefit costs for the year ended December 31.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.					
	2011	2010	2009	2011	2010	2009	2011	2010	2009
PPL									
Discount rate	5.42%	5.96%	6.50%	5.59%	5.59%	7.47%	5.14%	5.47%	6.45%
Rate of compensation increase	4.88%	4.79%	4.75%	3.75%	4.00%	4.00%	4.90%	4.78%	4.75%
Expected return on plan assets (a)	7.25%	7.96%	8.00%	7.04%	7.91%	7.90%	6.57%	6.90%	7.00%
PPL Energy Supply									
Discount rate	5.47%	6.00%	6.50%		5.59%	7.47%	4.95%	5.55%	6.37%
Rate of compensation increase	4.75%	4.75%	4.75%		4.00%	4.00%	4.75%	4.75%	4.75%
Expected return on plan assets (a)	7.25%	8.00%	7.78%		7.91%	7.90%	N/A	N/A	N/A

The following table provides the weighted-average assumptions used to determine the net periodic benefit costs for January 1, 2011 through December 31, 2011, and November 1, 2010 through December 31, 2010, for the Successor, and January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor.

	Pension Benefits				Other Postretirement Benefits			
	Successor		Predecessor		Successor		Predecessor	
	2011	2010	2010	2009	2011	2010	2010	2009
LKE								
Discount rate	5.49%	5.40%	6.11%	6.28%	5.12%	4.94%	5.82%	6.36%
Rate of compensation increase	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%
Expected return on plan assets (a)	7.25%	7.25%	7.75%	8.25%	7.16%	7.04%	7.20%	7.97%
LG&E								
Discount rate	5.39%	5.28%	6.08%	6.33%				
Rate of compensation increase	N/A	N/A	N/A	N/A				
Expected return on plan assets (a)	7.25%	7.25%	7.75%	8.25%				

(a) The expected long-term rates of return for PPL, PPL Energy Supply, LKE and LG&E's U.S. pension and other postretirement benefits have been developed using a best-estimate of expected returns, volatilities and correlations for each asset class. The best estimates are based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes. PPL management corroborates these rates with expected long-term rates of return calculated by its independent actuary, who uses a building block approach that begins with a risk-free rate of return with factors being added such as inflation, duration, credit spreads and equity risk. Each plan's specific asset allocation is also considered in developing a reasonable return assumption.

The expected long-term rates of return for PPL's U.K. pension plans have been developed by PPL management with assistance from an independent actuary using a best estimate of expected returns, volatilities and correlations for each asset class. The best estimates are based on historical performance, future expectations and periodic portfolio rebalancing among the diversified asset classes.

The following table provides the assumed health care cost trend rates for the year ended December 31.

	2011	2010	2009
PPL and PPL Energy Supply			
Health care cost trend rate assumed for next year			
- obligations	8.5%	9.0%	8.0%
- cost	9.0%	8.0%	8.4%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			
- obligations	5.5%	5.5%	5.5%
- cost	5.5%	5.5%	5.5%
Year that the rate reaches the ultimate trend rate			
- obligations	2019	2019	2016
- cost	2019	2016	2014

The following table provides the assumed health care cost trend rates for January 1, 2011 through December 31, 2011, and November 1, 2010 through December 31, 2010, for the Successor, and January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor.

	Successor		Predecessor	
	2011	2010	2010	2009
LKE				
Health care cost trend rate assumed for next year				
- obligations	8.5%	9.0%	7.8%	8.0%
- cost	9.0%	9.0%	8.0%	8.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)				
- obligations	5.5%	5.5%	4.5%	4.5%
- cost	5.5%	5.5%	4.5%	5.0%
Year that the rate reaches the ultimate trend rate				
- obligations	2019	2019	2029	2029
- cost	2019	2019	2029	2016

A one percentage point change in the assumed health care costs trend rate assumption would have had the following effects on the other postretirement benefit plans in 2011.

	One Percentage Point	
	Increase	Decrease
Effect on accumulated postretirement benefit obligation		
PPL	$ 8	$ (8)
LKE	6	(5)

The effects on PPL Energy Supply's other postretirement benefit plans would not have been significant.

(PPL)

The funded status of the PPL plans was as follows.

	Pension Benefits								Other Postretirement Benefits			
	U.S.				U.K.							
	2011		2010		2011		2010		2011		2010	
Change in Benefit Obligation												
Benefit Obligation, beginning of period	$	4,007	$	2,460	$	2,841	$	2,933	$	667	$	498
Service cost		95		64		44		17		12		8
Interest cost		217		159		282		151		33		28
Participant contributions						11		6		5		7
Plan amendments		8								10		(71)
Actuarial loss		220		222		257		37		6		32
Acquisition (a)				1,231		3,501						206
Curtailments												
Termination benefits						50						
Actual expenses paid				(2)								
Gross benefits paid		(166)		(127)		(309)		(152)		(47)		(44)
Federal subsidy										1		3
Currency conversion						(39)		(151)				
Benefit Obligation, end of period		4,381		4,007		6,638		2,841		687		667
Change in Plan Assets												
Plan assets at fair value, beginning of period		2,819		1,772		2,524		2,331		360		301
Actual return on plan assets		349		263		444		228		38		33
Employer contributions		470		148		164		231		33		17
Participant contributions						11		6		5		7
Acquisition (a)				765		3,567						42
401(h) transfer												
Actual expenses paid		(1)		(2)								
Gross benefits paid		(166)		(127)		(309)		(152)		(45)		(40)
Currency conversion						(50)		(120)				
Plan assets at fair value, end of period		3,471		2,819		6,351		2,524		391		360
Funded Status, end of period	$	(910)	$	(1,188)	$	(287)	$	(317)	$	(296)	$	(307)
Amounts recognized in the Balance Sheets consist of:												
Noncurrent asset					$	130						
Current liability	$	(29)	$	(10)					$	(1)	$	(2)
Noncurrent liability		(881)		(1,178)		(417)	$	(317)		(295)		(305)
Net amount recognized, end of period	$	(910)	$	(1,188)	$	(287)	$	(317)	$	(296)	$	(307)
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of: (b)												
Transition obligation									$	2	$	4
Prior service cost (credit)	$	115	$	131	$	3	$	7		(5)		(16)
Net actuarial loss		922		836		1,191		1,097		97		112
Total (c)	$	1,037	$	967	$	1,194	$	1,104	$	94	$	100
Total accumulated benefit obligation for defined benefit pension plans	$	3,949	$	3,564	$	6,144	$	2,646				

(a) Includes the pension and other postretirement medical plans of LKE, which were acquired in 2010, and the pension plan of WPD Midlands, which was acquired in 2011. See Note 10 for additional information.

(b) For PPL's U.S. pension benefits, the amounts recognized in AOCI for 2011 and 2010 were $481 million, $431 million. The amounts recognized in regulatory assets/liabilities for 2011 and 2010 were $556 million and $536 million. In total, the amounts recognized in either OCI or regulatory assets/liabilities for 2011 and 2010 were $1,037 million and $967 million.

For other postretirement benefits, the amounts recognized in AOCI for 2011 and 2010 were $56 million and $53 million. The amounts recognized in regulatory assets/liabilities for 2011 and 2010 were $38 million and $47 million. In total, the amounts recognized in either OCI or regulatory assets/liabilities for 2011 and 2010 were $94 million and $100 million.

(c) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. As a result, WPD does not record regulatory assets/liabilities.

All of PPL's U.S. pension plans had projected and accumulated benefit obligations in excess of plan assets at December 31, 2011 and 2010. All of PPL's other postretirement benefit plans had accumulated postretirement benefit obligations in excess of plan assets at December 31, 2011 and 2010. For the U.K. pension plans of PPL WEM, the fair value of plan assets of $3.7 billion exceeded both the projected benefit obligations of $3.6 billion and the accumulated benefit obligations of $3.3 billion at December 31, 2011. For the pension plans of PPL WW, both the projected benefit obligations of $3.0 billion and accumulated benefit obligations of $2.8 billion exceeded the plan assets of $2.6 billion at December 31, 2011. For the pension plans of PPL WW, both the projected benefit obligations of $2.8 billion and accumulated benefit obligations of $2.6 billion exceeded the plan assets of $2.5 billion at 2010.

(PPL Energy Supply)

The funded status of the PPL Energy Supply plans was as follows.

	Pension Benefits					
	U.S.		U.K. (a)		Other Postretirement Benefits	
	2011	2010	2011	2010	2011	2010
Change in Benefit Obligation						
Benefit Obligation, beginning of period	$ 121	$ 104	$ 2,841	$ 2,933	$ 18	$ 17
Service cost	5	4		17	1	1
Interest cost	7	7		151	1	1
Participant contributions				6		
Actuarial loss	13	9		37	(2)	
Distribution to parent (a)			(2,841)			
Actual expenses paid					(1)	
Gross benefits paid	(3)	(3)		(152)		(1)
Federal subsidy						
Currency conversion				(151)		
Benefit Obligation, end of period	143	121		2,841	17	18
Change in Plan Assets						
Plan assets at fair value, beginning of period	106	87	2,524	2,331		
Actual return on plan assets	14	12		228		
Employer contributions	15	10		231		1
Participant contributions				6		
Distribution to parent (a)			(2,524)			
Gross benefits paid	(3)	(3)		(152)		(1)
Currency conversion				(120)		
Plan assets at fair value, end of period	132	106		2,524		
Funded Status, end of period	$ (11)	$ (15)	$	$ (317)	$ (17)	$ (18)
Amounts recognized in the Balance Sheets consist of:						
Current liability					$ (1)	$ (1)
Noncurrent liability	$ (11)	$ (15)		$ (317)	(16)	(17)
Net amount recognized, end of period	$ (11)	$ (15)		$ (317)	$ (17)	$ (18)
Amounts recognized in AOCI (pre-tax) consist of:						
Prior service cost (credit)	$ 1	$ 1		$ 7		$ (1)
Net actuarial loss	38	33		1,097	$ 2	4
Total	$ 39	$ 34		$ 1,104	$ 2	$ 3
Total accumulated benefit obligation for defined benefit pension plans	$ 143	$ 121		$ 2,646		

(a) As a result of PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, the funded status and AOCI were removed from the balance sheet in January 2011. See Note 9 for additional information.

All of PPL Energy Supply's pension plans had projected and accumulated benefit obligations in excess of plan assets at December 31, 2011 and 2010. All of PPL Energy Supply's other postretirement benefit plans had accumulated postretirement benefit obligations in excess of plan assets at December 31, 2011 and 2010.

In addition to the plans it sponsors, PPL Energy Supply and its subsidiaries are allocated a portion of the funded status and costs of the defined benefit plans sponsored by PPL Services based on their participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. PPL Energy Supply's allocated share of the funded status of the pension plans resulted in a liability of $204 million and $287 million at December 31, 2011 and 2010. PPL

Energy Supply's allocated share of other postretirement benefits was a liability of $51 million and $55 million at December 31, 2011 and 2010.

(LKE)

The funded status of the LKE plans was as follows for January 1, 2011 through December 31, 2011, and November 1, 2010 through December 31, 2010, for the Successor, and January 1, 2010 through October 31, 2010, for the Predecessor.

	Pension Benefits			Other Postretirement Benefits		
	Successor		Predecessor	Successor		Predecessor
	2011	2010	2010	2011	2010	2010
Change in Benefit Obligation						
Benefit Obligation, beginning of period	$ 1,229	$ 1,230	$ 1,085	$ 204	$ 206	$ 199
Service cost	24	4	17	4	1	3
Interest cost	67	11	54	10	1	9
Plan amendments	9			10		
Actuarial loss	25	(8)	116	(3)	(2)	4
Gross benefits paid	(48)	(8)	(42)	(12)	(2)	(9)
Federal subsidy				1		
Benefit Obligation, end of period	1,306	1,229	1,230	214	204	206
Change in Plan Assets						
Plan assets at fair value, beginning of period	778	764	696	49	42	37
Actual return on plan assets	62	22	65	3	1	3
Employer contributions	152		46	18	8	11
Actual expenses paid			(1)			
Gross benefits paid	(48)	(8)	(42)	(12)	(2)	(9)
Plan assets at fair value, end of period	944	778	764	58	49	42
Funded Status, end of period	$ (362)	$ (451)	$ (466)	$ (156)	$ (155)	$ (164)
Amounts recognized in the Balance Sheets consist of:						
Current liability	$ (3)	$ (2)	$ (3)		$ (1)	$ (1)
Noncurrent liability	(359)	(449)	(463)	$ (156)	(154)	(163)
Net amount recognized, end of period	$ (362)	$ (451)	$ (466)	$ (156)	$ (155)	$ (164)
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of: (a)						
Transition obligation				$ 2	$ 3	$ 4
Prior service cost	$ 34	$ 30	$ 50	14	6	7
Net actuarial (gain) loss	280	276	396	(7)	(4)	(4)
Total	$ 314	$ 306	$ 446	$ 9	$ 5	$ 7
Total accumulated benefit obligation for defined benefit pension plans	$ 1,141	$ 1,043	$ 1,039			

(a) For LKE's pension and other post-retirement benefits, the amounts recognized in AOCI and regulatory assets/liabilities are as follows at December 31, 2011 and 2010, for the Successor, and at October 31, 2010, for the Predecessor.

	Pension Benefits			Other Postretirement Benefits		
	Successor		Predecessor	Successor		Predecessor
	2011	2010	2010	2011	2010	2010
AOCI	$ (7)	$ (8)	$ 112	$ 1	$ (1)	$ (1)
Regulatory assets/liabilities	321	314	334	8	6	8
Total	$ 314	$ 306	$ 446	$ 9	$ 5	$ 7

LKE's pension plans had projected and accumulated benefit obligations in excess of plan assets at December 31, 2011 and 2010. LKE's postretirement benefit plan had accumulated postretirement benefit obligations in excess of plan assets at December 31, 2011 and 2010.

(LG&E)

The funded status of the LG&E plan was as follows for January 1, 2011 through December 31, 2011, and November 1, 2010 through December 31, 2010, for the Successor, and January 1, 2010 through October 31, 2010, for the Predecessor.

	Pension Benefits		
	Successor		Predecessor
	2011	2010	2010
Change in Benefit Obligation			
Benefit Obligation, beginning of period	$ 274	$ 276	$ 251
Service cost	2		2
Interest cost	14	2	12
Plan amendments	9		
Actuarial loss	14	(2)	24
Gross benefits paid	(15)	(2)	(13)
Benefit Obligation, end of period	298	274	276
Change in Plan Assets			
Plan assets at fair value, beginning of period	217	214	196
Actual return on plan assets	16	6	19
Employer contributions	38		12
Actual expenses paid	(15)		
Gross benefits paid		(3)	(13)
Plan assets at fair value, end of period	256	217	214
Funded Status, end of period	$ (42)	$ (57)	$ (62)
Amounts recognized in the Balance Sheets consist of:			
Noncurrent liability	$ (42)	$ (57)	$ (62)
Net amount recognized, end of period	$ (42)	$ (57)	$ (62)
Amounts recognized in regulatory assets (pre-tax) consist of:			
Prior service cost	$ 20	$ 13	$ 14
Net actuarial loss	115	111	118
Total	$ 135	$ 124	$ 132
Total accumulated benefit obligation for defined benefit pension plan	$ 292	$ 274	$ 273

LG&E's pension plan had projected and accumulated benefit obligations in excess of plan assets at December 31, 2011 and 2010.

In addition to the plan it sponsors, LG&E is allocated a portion of the funded status and costs of certain defined benefit plans sponsored by LKE based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. LG&E's allocated share of the funded status of the pension plans resulted in a liability of $53 million and $69 million at December 31, 2011 and 2010. LG&E's allocated share of other postretirement benefits was a liability of $87 million and $85 million at December 31, 2011 and 2010.

(PPL and PPL Energy Supply)

PPL Energy Supply's mechanical contracting subsidiaries make contributions to over 70 multiemployer pension plans, based on the bargaining units from which labor is procured. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers .
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If PPL Energy Supply's mechanical contracting subsidiaries choose to stop participating in some of their multiemployer plans, they may be required to pay those plans an amount based on the unfunded status of the plan, referred to as a withdrawal liability.

PPL Energy Supply identified the Steamfitters Local Union No. 420 Pension Plan, EIN/Plan Number 23-2004424/001 as the only significant plan to which contributions are made. Contributions to this plan by PPL Energy Supply's mechanical contracting companies were $5 million for 2011, $4 million for 2010 and $5 million for 2009. At the date the financial statements were issued, the Form 5500 was not available for the plan year ending in 2011. Therefore, the following disclosures specific to this plan are being made based on the Form 5500s filed for the plan years ended December 31, 2010 and 2009. PPL Energy Supply's mechanical contracting subsidiaries were not identified individually as greater than 5%

contributors on the Form 5500s. However, the combined contributions of the three subsidiaries contributing to the plan had exceeded 5%. The plan had a Pension Protection Act zone status of red, without utilizing an extended amortization period, as of December 31, 2010 and 2009. In addition, the plan is subject to a rehabilitation plan and surcharges have been applied to participating employer contributions. The expiration date of the collective-bargaining agreement related to those employees participating in this plan is April 30, 2014. There were no other plans deemed individually significant based on a multifaceted assessment of each plan. This assessment included review of the funded/zone status of each plan and PPL Energy Supply's potential obligations under the plan and the number of participating employers contributing to the plan.

PPL Energy Supply's mechanical contracting subsidiaries also participate in multiemployer other postretirement plans that provide for retiree life insurance and health benefits.

The table below details total contributions to all multiemployer pension and other postretirement plans, including the plan identified as significant above. The contribution amounts fluctuate each year based on the volume of work and type of projects undertaken from year to year.

	2011	2010	2009
Pension Plans	$ 36	$ 26	$ 29
Other Postretirement Medical Plans	31	23	25
Total Contributions	$ 67	$ 49	$ 54

PPL Energy Supply maintains a liability for the cost of health care of retired miners of former subsidiaries that had been engaged in coal mining, as required by the Coal Industry Retiree Health Benefit Act of 1992. At December 31, 2011, the liability was $6 million. The liability is the net of $67 million of estimated future benefit payments offset by $31 million of assets in a retired miners VEBA trust and an additional $30 million of excess assets available in a Black Lung Trust that can be used to fund the health care benefits of retired miners.

(PPL Electric)

Although PPL Electric does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by PPL Services based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. PPL Electric's allocated share of the funded status of the pension plans resulted in a liability of $186 million and $259 million at December 31, 2011 and 2010. PPL Electric's allocated share of other postretirement benefits was a liability of $53 million and $57 million at December 31, 2011 and 2010.

(KU)

Although KU does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by LKE based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees of KU are used as a basis to allocate total plan activity, including active and retiree costs and obligations. KU's allocated share of the funded status of the pension plans resulted in a liability of $83 million and $113 million at December 31, 2011 and 2010. KU's allocated share of other postretirement benefits was a liability of $62 million at December 31, 2011 and 2010.

Plan Assets - U.S. Pension Plans

(PPL, PPL Energy Supply, LKE and LG&E)

PPL's primary legacy pension plan and the pension plan in which employees of PPL Montana participate are invested in the PPL Services Corporation Master Trust that also includes a 401(h) account that is restricted for certain other postretirement benefit obligations. Through December 31, 2011, the plans sponsored by LKE were invested in Pension Trusts that also included a 401(h) account that is restricted for certain other postretirement benefit obligations. Effective January 1, 2012, the assets in the LKE Pension Trusts were transferred into the PPL Services Corporation Master Trust. The investment strategy for the master trust is to achieve a risk-adjusted return on a mix of assets that, in combination with PPL's funding policy, will ensure that sufficient assets are available to provide long-term growth and liquidity for benefit payments. The master trust benefits from a wide diversification of asset types, investment fund strategies and external investment fund managers, and therefore have no significant concentration of risk.

The investment policies of the PPL Services Corporation Master Trust and LG&E and KU Energy LLC Pension Trusts outline allowable investments and define the responsibilities of the EBPB and the external investment managers. The only prohibited investments are investments in debt or equity securities issued by PPL and its subsidiaries or PPL's pension plan consultant. Derivative instruments may be utilized as a cost-effective means to mitigate risk and match the duration of investments to projected obligations. The investment policies are reviewed annually by PPL's Board of Directors.

The EBPB created a risk management framework around the trust assets and pension liabilities. This framework considers the trust assets as being composed of three sub-portfolios: the growth, immunizing and liquidity portfolios. The growth portfolio is comprised of investments that generate a return at a reasonable risk, including equity securities, certain debt securities and alternative investments. The immunizing portfolio consists of debt securities and derivative positions that will typically have long durations. The immunizing portfolio is designed to offset a portion of the change in the pension liabilities due to changes in interest rates. The liquidity portfolio consists primarily of cash and cash equivalents.

Target allocation ranges have been developed for each portfolio based on input from external consultants with a goal of limiting funded status volatility. The EBPB monitors the investments in each portfolio, and seeks to obtain a target portfolio that emphasizes reduction of risk of loss from market volatility. In pursuing that goal, the EBPB establishes revised guidelines from time to time. Revised EBPB investment guidelines as of the end of 2011 are presented below.

The asset allocation for the trusts and the target allocation by portfolio, at December 31 are as follows.

PPL Services Corporation Master Trust

	Percentage of trust assets		Target Range	Target Asset Allocation
	2011	2010	2011	2011
Growth Portfolio	**57%**	**72%**	**45 - 60%**	**55%**
Equity securities	31%	43%		
Debt securities (a)	17%	20%		
Alternative investments	9%	9%		
Immunizing Portfolio	**41%**	**27%**	**35 - 55%**	**43%**
Debt securities (a)	40%	27%		
Derivatives	1%			
Liquidity Portfolio	**2%**	**1%**	**0 - 9%**	**2%**
Total	100%	100%		100%

(a) Includes commingled debt funds, which PPL treats as debt securities for asset allocation purposes.

LG&E and KU Energy LLC Pension Trusts

	Percentage of trust assets	Target Range	Target Asset Allocation
	2011	2011	2011
Growth Portfolio	**54%**	**45 - 60%**	**59%**
Equity securities	33%		
Debt securities (a)	21%		
Immunizing Portfolio	**34%**	**35 - 55%**	**38%**
Debt securities (a) (b)	34%		
Liquidity Portfolio (b)	**12%**	**0 - 9%**	**3%**
Total	100%		100%

(a) Includes commingled debt funds, which LKE treats as debt securities for asset allocation purposes.
(b) The asset allocation for this portfolio is not within the established target range due to the transition of assets at the end of 2011 in anticipation of transfer into the PPL Services Corporation Master Trust in January 2012.

Prior to the fourth quarter of 2011, the LKE trusts were managed using a different investment policy. As of December 31, 2010, the asset allocation was as follows.

	Percentage of trust assets	Target Range
	2010	2010
Asset Class		
Equity securities	56%	45 - 75%
Debt securities (a)	37%	30 - 50%
Other	7%	0 - 10%
Total	100%	

(a) Includes commingled debt funds.

(PPL and PPL Energy Supply)

PPL Montana, a subsidiary of PPL Energy Supply, has a pension plan whose assets are solely invested in the PPL Services Corporation Master Trust, which is fully disclosed by PPL (below). The fair value of this plan's assets of $133 million at December 31, 2011 represents a 5% undivided interest in the assets and liabilities of this master trust, including each asset whose fair value measurement was determined using significant unobservable inputs (Level 3).

The fair value of net assets in the U.S. pension plan trusts by asset class and level within the fair value hierarchy was:

	December 31, 2011				December 31, 2010			
		Fair Value Measurements Using				Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL Services Corporation Master Trust								
Cash and cash equivalents	$ 78	$ 78			$ 87	$ 87		
Equity securities:								
U.S.:								
Large-cap	371	247	$ 124		414	293	$ 121	
Small-cap	112	112			113	113		
Commingled debt	458		458		249		249	
International	299	102	197		343	121	222	
Debt securities:								
U.S. Treasury and U.S. government sponsored agency	515	443	72		331	295	36	
Residential/commercial backed securities	9		9		10		10	
Corporate	446		439	$ 7	319		313	$ 6
Other	10		10		12		12	
International	6		6		3		3	
Alternative investments:								
Real estate	85		85		76		76	
Private equity	45			45	10			10
Hedge fund of funds	92		92		95		95	
Derivatives:								
TBA debt securities	5			5	31			31
Interest rate swaps	20		20		(4)		(4)	
Receivables	50	31	19		24	13	11	
Payables	(48)	(40)	(8)		(54)	(51)	(3)	
Total PPL Services Corporation Master Trust assets	2,553	973	1,523	57	2,059	871	1,141	47
401(h) account restricted for other postretirement benefit obligations	(26)	(10)	(16)		(18)	(8)	(10)	
Fair value - PPL Services Corporation Master Trust pension assets	2,527	963	1,507	57	2,041	863	1,131	47
(LKE)								
LG&E and KU Energy LLC Pension Trusts								
Cash and cash equivalents	122	122			6	6		
Equity securities:								
U.S.:								
Large-cap	220		220		293		293	
Small/Mid-cap					67		67	
Commingled debt	65		65		307		307	
International	106	44	62		105		105	
Debt securities:								
U.S. Treasury	97	97						
Corporate	342		342					
Derivatives:								
Total return swaps	4		4					
Insurance contracts	46			46	47			47
Total LG&E and KU Energy LLC Pension Trusts assets	1,002	263	693	46	825	6	772	47
401(h) account restricted for other postretirement benefit obligations	(58)	(13)	(45)		(47)		(47)	
Fair value - LG&E and KU Energy LLC Pension Trusts pension assets	944	250	648	46	778	6	725	47
Fair value - total U.S. pension plans	$ 3,471	$ 1,213	$ 2,155	$ 103	$ 2,819	$ 869	$ 1,856	$ 94

A reconciliation of U.S. pension trust assets classified as Level 3 at December 31, 2011 is as follows.

	Residential /commercial backed securities	Corporate debt	Private equity	TBA debt securities	Insurance contracts	Total
Balance at beginning of period		$ 6	$ 10	$ 31	$ 47	$ 94
Actual return on plan assets						
Relating to assets still held						
at the reporting date		(4)	8		3	7
Purchases, sales and settlements		5	27	(26)	(4)	2
Balance at end of period		$ 7	$ 45	$ 5	$ 46	$ 103

A reconciliation of U.S. pension trust assets classified as Level 3 at December 31, 2010 is as follows.

	Residential /commercial backed securities	Corporate debt	Private equity	TBA debt securities	Insurance contracts	Total
Balance at beginning of period	$ 2	$ 10	$ 6	$ 10		$ 28
Actual return on plan assets						
Relating to assets still held						
at the reporting date	(1)	(1)	(1)			(3)
Relating to assets sold during the period		1				1
Acquisition of LKE					$ 46	46
Purchases, sales and settlements	(1)	(4)	5	21	1	22
Balance at end of period	$	$ 6	$ 10	$ 31	$ 47	$ 94

(PPL, PPL Energy Supply, LKE and LG&E)

The fair value measurements of cash and cash equivalents are based on the amounts on deposit.

The market approach is used to measure fair value of equity securities. The fair value measurements of equity securities (excluding commingled funds), which are generally classified as Level 1, are based on quoted prices in active markets. These securities represent actively and passively managed investments that are managed against various equity indices.

Investments in commingled funds are classified as Level 2 and categorized as equity securities. The fair value measurements are based on firm quotes of net asset values per share, which are not considered obtained from a quoted price in an active market. For the PPL Services Corporation Master Trust for 2011 and 2010 and the LG&E and KU Energy LLC Pension Trusts for 2011, these securities represent investments that are measured against the Russell 1000 Growth Index, the Russell 3000 Index and the MSCI EAFE Index. For the LG&E and KU Energy LLC Pension Trusts during 2010, these securities represent passively and actively managed investments in equity funds managed against the S&P 500 Index, the Russell 2500 Growth & Value Indexes and the MSCI EAFE Index.

The fair value measurements of debt securities are generally based on evaluated prices that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences. Debt securities are generally measured using a market approach, including the use of matrix pricing. Common inputs include reported trades; broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as benchmark yields, credit valuation adjustments, reference data from market research publications, monthly payment data, collateral performance and new issue data. For the PPL Services Corporation Master Trust, these securities represent investments in securities issued by U.S. Treasury and U.S. government sponsored agencies; investments securitized by residential mortgages, auto loans, credit cards and other pooled loans; investments in investment grade and non-investment grade bonds issued by U.S. companies across several industries; and investments in debt securities issued by foreign governments and corporations as well as commingled fund investments that are measured against the JP Morgan EMBI Global Diversified Index and the Barclays Long A or Better Index. During 2010 and the first ten months of 2011 for the LG&E and KU pension trusts, debt securities within commingled trusts were managed against the Barclays Aggregated Bond Index and the Barclays U.S. Government/Credit Long Index. During the last two months of 2011, the debt securities for the LG&E and KU pension trusts were transitioned to debt securities similar to those within the PPL Services Corporation Master Trust. The debt securities, excluding those in commingled funds, held by the PPL Services Corporation Master Trust at December 31, 2011 have a weighted-average coupon of 3.96% and a weighted-average maturity of 25 years.

Investments in real estate represent an investment in a partnership whose purpose is to manage investments in core U.S. real estate properties diversified geographically and across major property types (e.g., office, industrial, retail, etc.). The manager is focused on properties with high occupancy rates with quality tenants. This results in a focus on high income and stable cash flows with appreciation being a secondary factor. Core real estate generally has a lower degree of leverage when compared with more speculative real estate investing strategies. The partnership has limitations on the amounts that may be redeemed based on available cash to fund redemptions. Additionally, the general partner may decline to accept redemptions when necessary to avoid adverse consequences for the partnership, including legal and tax implications, among others. The fair value of the investment is based upon a partnership unit value.

Investments in private equity represent interests in partnerships in multiple early-stage venture capital funds and private equity fund of funds that use a number of diverse investment strategies. Four of the partnerships have limited lives of ten years, while the fifth has a life of 15 years, after which liquidating distributions will be received. Prior to the end of each partnership's life, the investment cannot be redeemed with the partnership; however, the interest may be sold to other parties, subject to the general partner's approval. The PPL Services Corporation Master Trust has unfunded commitments of $83 million that may be required during the lives of the partnerships. Fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

Investments in hedge fund of funds represent investments in two hedge fund of funds each with a different investment objective. Hedge funds seek a return utilizing a number of diverse investment strategies. The strategies, when combined aim to reduce volatility and risk while attempting to deliver positive returns under all market conditions. Major investment strategies for both hedge fund of funds include long/short equity, market neutral, distressed debt, and relative value. Generally, shares may be redeemed on 90 days prior written notice. Both funds are subject to short term lockups and have limitations on the amount that may be withdrawn based on a percentage of the total net asset value of the fund, among other restrictions. All withdrawals are subject to the general partner's approval. One fund's fair value has been estimated using the net asset value per share and the other fund's fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

The fair value measurements of derivative instruments utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. These securities represent investments in To-be-announced debt securities and interest rate swaps. To-be-announced debt securities are commitments to purchase debt securities and are used as a cost effective means of managing the duration of assets in the trust. These commitments are valued by reviewing the issuing agency, program and coupon. Interest rate swaps are valued based on the swap details such as: swap curves, notional amount, index and term of index, reset frequency and payer/receiver credit ratings.

Receivables/payables classified as Level 1 represent investments sold/purchased but not yet settled. Receivables/payables classified as Level 2 represent interest and dividends earned but not yet received and costs incurred but not yet paid.

Insurance contracts, classified as Level 3, are held by the LG&E and KU Energy LLC Pension Trusts and represent an investment in an immediate participation guaranteed group annuity contract. The fair value is based on contract value, which represents cost plus interest income less distributions for benefit payments and administrative expenses.

Plan Assets - U.S. Other Postretirement Benefit Plans *(PPL and LKE)*

PPL's investment strategy with respect to its other postretirement benefit obligations is to fund VEBA trusts and 401(h) accounts with voluntary contributions and to invest in a tax efficient manner. Excluding the 401(h) accounts included in the PPL Services Corporation Master Trust and LG&E and KU Energy LLC Pension Trusts, discussed in Plan Assets - U.S. Pension Plans above, PPL's other postretirement benefit plans are invested in a mix of assets for long-term growth with an objective of earning returns that provide liquidity as required for benefit payments. These plans benefit from diversification of asset types, investment fund strategies and investment fund managers, and therefore, have no significant concentration of risk. The only prohibited investments are investments in debt or equity securities issued by PPL and its subsidiaries. Equity securities include investments in domestic large-cap commingled funds. Securities issued by commingled funds that invest entirely in debt securities are traded as equity units, but treated by PPL as debt securities for asset allocation and target allocation purposes. Securities issued by commingled money market funds that invest entirely in money market securities are traded as equity units, but treated by PPL as cash and cash equivalents for asset allocation and target allocation purposes. The asset allocation for the VEBA trusts and the target allocation, by asset class, at December 31, are detailed below.

	Percentage of plan assets 2011	Percentage of plan assets 2010	Target Range 2011	Target Asset Allocation 2011
Asset Class				
U.S. Equity securities	53%	55%	45 - 65%	55%
Debt securities (a)	41%	39%	30 - 50%	40%
Cash and cash equivalents (b)	6%	6%	0 - 15%	5%
Total	100%	100%		100%

(a) Includes commingled debt funds and debt securities.
(b) Includes commingled money market fund.

The fair value of assets in the U.S. other postretirement benefit plans by asset class and level within the fair value hierarchy was:

	December 31, 2011				December 31, 2010			
		Fair Value Measurement Using				Fair Value Measurement Using		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
U.S. Equity securities:								
Large-cap	$ 126		$ 126		$ 163		$ 163	
Commingled debt	121		121		69		69	
Commingled money market funds	20		20		18		18	
Debt securities:								
Municipalities	40		40		44		44	
Receivables					1		1	
Total VEBA trust assets	307		307		295		295	
401(h) account assets	84	$ 23	61		65	$ 8	57	
Fair value - U.S. other postretirement benefit plans	$ 391	$ 23	$ 368		$ 360	$ 8	$ 352	

LKE's other postretirement benefit plans are invested primarily in a 401(h) account as disclosed in the LG&E and KU Energy LLC Pension Trusts Table.

Investments in large-cap equity securities represent investments in a passively managed equity index fund that invests in securities and a combination of other collective funds that together track the performance of the S&P 500 Index. Redemptions can be made daily on this fund.

Investments in commingled debt securities represent investments in a fund that invests in a diversified portfolio of investment grade money market instruments including, but not limited to, commercial paper, notes, repurchase agreements and other evidences of indebtedness with a maturity date not exceeding 13 months from date of purchase. Redemptions can be made weekly on this fund.

Investments in commingled money market funds represent investments in a fund that invests in securities and a combination of other collective funds that together are designed to track the performance of the Barclays Capital Long-term Treasury Index, as well as a fund that invests primarily in a diversified portfolio of investment grade money market instruments, including, but not limited to, commercial paper, notes, repurchase agreements and other evidences of indebtedness with a maturity not exceeding 13 months from the date of purchase. The primary objective of the fund is a high level of current income consistent with stability of principal and liquidity. Redemptions can be made daily on each of these funds.

Investments in municipalities represent investments in a diverse mix of tax-exempt municipal securities.

Receivables represent interest and dividends earned but not received as well as investments sold but not yet settled.

Plan Assets - U.K. Pension Plans *(PPL)*

The overall investment strategy of WPD's pension plans is developed by each plan's independent trustees in its Statement of Investment Principle in compliance with the U.K. Pensions Act of 1995 and other U.K. legislation. The trustees' primary focus is to ensure that assets are sufficient to meet members' benefits as they fall due with a longer term objective to reduce investment risk. The investment strategy is intended to maximize investment returns while not incurring excessive volatility in the funding position. WPD's plans are invested in a wide diversification of asset types, fund strategies and fund managers and therefore have no significant concentration of risk. Commingled funds that consist entirely of debt securities are traded as equity units, but treated by WPD as debt securities for asset allocation and target allocation purposes. These include investments in U.K. corporate bonds and U.K. gilts.

The asset allocation and target allocation at December 31 of WPD's pension plans are detailed below.

	Percentage of plan assets		Target Asset Allocation
	2011	2010	2011
Asset Class			
Cash and cash equivalents	5%	2%	
Equity securities			
U.K.	14%	18%	14%
European (excluding the U.K.)	5%	11%	6%
Asian-Pacific	5%	11%	5%
North American	5%	6%	4%
Emerging markets	2%	5%	2%
Currency	1%	2%	2%
Global Tactical Asset Allocation		1%	1%
Debt securities (a)	56%	38%	57%
Alternative investments	7%	6%	9%
Total	100%	100%	100%

(a) Includes commingled debt funds.

The fair value of assets in the U.K. pension plans by asset class and level within the fair value hierarchy was:

	December 31, 2011				December 31, 2010			
		Fair Value Measurement Using				Fair Value Measurement Using		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 313	$ 313			$ 46	$ 46		
Equity securities:								
U.K. companies	921		$ 921		455		$ 455	
European companies (excluding the U.K.)	313		313		273		273	
Asian-Pacific companies	312		312		279		279	
North American companies	335		335		162		162	
Emerging markets companies	116		116		127		127	
Currency	31		31		51		51	
Global Tactical Asset Allocation	25		25		23		23	
Commingled debt:								
U.K. corporate bonds	699		699		321		321	
U.K. gilts	2,109		2,109					
U.K. index-linked gilts	744		744		629		629	
Alternative investments:								
Real estate	433		433		158		158	
Fair value - international pension plans	$ 6,351	$ 313	$ 6,038		$ 2,524	$ 46	$ 2,478	

Except for investments in real estate, the fair value measurements of WPD's pension plan assets are based on the same inputs and measurement techniques used to measure the U.S. pension plan assets described above.

Investments in U.K. equity securities represent passively managed equity index funds that are measured against the FTSE All Share Index. Investments in European equity securities represent passively managed equity index funds that are measured against the FTSE Europe ex U.K. Index. Investments in Asian-Pacific equity securities represent passively managed equity index funds that aim to outperform 50% FTSE Asia Pacific ex-Japan Index and 50% FTSE Japan Index. Investments in North American equity securities represent passively managed index funds that are measured against the FTSE North America Index. Investments in emerging market equity securities represent passively managed equity index funds that are measured against the MSCI Emerging Markets Index. Investments in currency equity securities represent investments in unitized passive and actively traded currency funds. The Global Tactical Asset Allocation strategy attempts to benefit from short-term market inefficiencies by taking positions in worldwide markets with the objective to profit from relative movements across those markets.

Debt securities include investment grade corporate bonds of companies from diversified U.K. industries.

Investments in real estate represent holdings in a U.K. unitized fund that owns and manages U.K. industrial and commercial real estate with a strategy of earning current rental income and achieving capital growth. The fair value measurement of the fund is based upon a net asset value per share, which is based on the value of underlying properties that are independently appraised in accordance with Royal Institution of Chartered Surveyors valuation standards at least annually with quarterly valuation updates based on recent sales of similar properties, leasing levels, property operations and/or market conditions. The fund may be subject to redemption restrictions in the unlikely event of a large forced sale in order to ensure other unit holders are not disadvantaged.

Expected Cash Flows - U.S. Defined Benefit Plans *(PPL)*

PPL's U.S. defined benefit plans have the option to utilize available prior year credit balances to meet current and future contribution requirements. However, PPL contributed $207 million to its U.S. pension plans in January 2012 to meet minimum funding requirements.

PPL sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. PPL expects to make approximately $28 million of benefit payments under these plans in 2012.

PPL is not required to make contributions to its other postretirement benefit plans but has historically funded these plans in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause PPL to contribute $28 million to its other postretirement benefit plans in 2012.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid and the following federal subsidy payments are expected to be received by the separate plan trusts.

		Other Postretirement	
	Pension	Benefit Payment	Expected Federal Subsidy
2012	$ 205	$ 50	$ 1
2013	192	53	1
2014	203	57	1
2015	217	59	1
2016	229	62	1
2017-2021	1,384	348	4

(PPL Energy Supply)

The PPL Montana pension plan has the option to utilize available prior year credit balances to meet current and future contribution requirements. However, PPL Montana contributed $4 million to the plan in January 2012 to meet minimum funding requirements.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the separate plan trusts.

	Pension	Other Postretirement
2012	$ 3	$ 2
2013	4	2
2014	5	2
2015	6	2
2016	6	3
2017-2021	44	14

(LKE)

LKE's defined benefit plans have the option to utilize available prior year credit balances to meet current and future contribution requirements. However, LKE contributed $53 million to its pension plans in January 2012.

LKE sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. LKE expects to make $2 million of benefit payments under these plans in 2012.

LKE is not required to make contributions to its other postretirement benefit plan but has historically funded this plan in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause LKE to contribute $13 million to its other postretirement benefit plan in 2012.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid and the following federal subsidy payments are expected to be received by the separate plan trusts.

		Other Postretirement	
	Pension	Benefit Payment	Expected Federal Subsidy
2012	$ 54	$ 14	$ 1
2013	53	15	
2014	55	15	1
2015	57	16	
2016	61	16	1
2017 - 2021	374	86	3

(LG&E)

LG&E's defined benefit plan has the option to utilize available prior year credit balances to meet current and future contribution requirements. However, LG&E contributed $13 million to its pension plan in January 2012.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the separate plan trust.

	Pension
2012	$ 15
2013	15
2014	15
2015	15
2016	15
2017 - 2021	90

Expected Cash Flows - U.K. Pension Plans *(PPL)*

The pension plans of WPD are subject to formal actuarial valuations every three years, which are used to determine funding requirements. Future contributions for PPL WW were evaluated in accordance with the latest valuation performed as of March 31, 2010, in respect of PPL WW's principal pension scheme, to determine contribution requirements for 2012 and forward. Future contributions for PPL WEM are based on the assumption that a valuation had occurred as of March 31, 2010, and the deficit repair plan was settled on a similar basis. WPD expects to make contributions of approximately $161 million in 2012. PPL WW and PPL WEM are currently permitted to recover in rates approximately 75% of their deficit funding requirements for their primary pension plans.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the separate plan trusts.

	Pension
2012	$ 354
2013	357
2014	363
2015	371
2016	375
2017-2021	1,987

(PPL, PPL Energy Supply, PPL Electric and LKE)

Savings Plans

Substantially all employees of PPL's domestic subsidiaries are eligible to participate in deferred savings plans (401(k)s). Employer contributions to the plans were as follows.

	2011	2010	2009
PPL	$ 31	$ 23	$ 17
PPL Energy Supply	11	10	10
PPL Electric	5	4	4

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
LKE	$ 11	$ 2	$ 9	$ 11
LG&E	5	1	4	5
KU	6	1	4	5

The increase for PPL in 2011 and 2010 is primarily the result of PPL's acquisition of LKE and the employer contributions related to the employees of that company and its subsidiaries under their existing plans.

(PPL, PPL Energy Supply and PPL Electric)

Employee Stock Ownership Plan

Certain PPL subsidiaries sponsor a non-leveraged ESOP in which substantially all domestic employees, excluding those of PPL Montana, LKE and the mechanical contractors, are enrolled on the first day of the month following eligible employee status. Dividends paid on ESOP shares are treated as ordinary dividends by PPL. Under existing income tax laws, PPL is permitted to deduct the amount of those dividends for income tax purposes and to contribute the resulting tax savings (dividend-based contribution) to the ESOP.

The dividend-based contribution is used to buy shares of PPL's common stock and is expressly conditioned upon the deductibility of the contribution for federal income tax purposes. Contributions to the ESOP are allocated to eligible participants' accounts as of the end of each year, based 75% on shares held in existing participants' accounts and 25% on the eligible participants' compensation.

Compensation expense for ESOP contributions was $8 million in 2011, 2010 and 2009. These amounts were offset by the dividend-based contribution tax savings and had no impact on PPL's earnings.

PPL shares within the ESOP outstanding at December 31, 2011 were 7,867,977 or 1% of total common shares outstanding, and are included in all EPS calculations.

Separation Benefits

Certain PPL subsidiaries provide separation benefits to eligible employees. These benefits may be provided in the case of separations due to performance issues, loss of job related qualifications or organizational changes. Certain employees separated are eligible for cash severance payments, outplacement services, accelerated stock award vesting, continuation of group health and welfare coverage, and enhanced pension and postretirement medical benefits. The type and amount of benefits provided is based upon age, years of service and the nature of the separation. Separation benefits are recorded when such amounts are probable and estimable.

In February 2009, PPL announced workforce reductions that resulted in the elimination of approximately 200 management and staff positions across PPL's domestic operations, or approximately 6% of PPL's non-union, domestic workforce. The charges noted below consisted primarily of enhanced pension and severance benefits under PPL's Pension Plan and Separation Policy and were recorded primarily to "Other operation and maintenance" on the Statement of Income.

As a result of the workforce reductions, PPL recorded a charge of $22 million ($13 million after tax) in 2009.

PPL Energy Supply eliminated approximately 50 management and staff positions and recorded a charge of $13 million ($8 million after tax) in 2009. Included in this charge was $8 million ($4 million after tax) of allocated costs associated with the elimination of employees of PPL Services.

PPL Electric eliminated approximately 50 management and staff positions and recorded a charge of $9 million ($5 million after tax) in 2009. Included in this charge was $3 million ($1 million after tax) of allocated costs associated with the elimination of employees of PPL Services.

Separation benefits were not significant in 2010.

See Note 10 for separation benefits recorded in 2011 in connection with a reorganization following the acquisition of WPD Midlands.

(PPL, PPL Energy Supply, PPL Electric and LKE)

Health Care Reform

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

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

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

Other provisions within Health Care Reform that apply to PPL and its subsidiaries include:

- an excise tax, beginning in 2018, imposed on high-cost plans providing health coverage that exceeds certain thresholds;
- a requirement to extend dependent coverage up to age 26; and
- broadening the eligibility requirements under the Federal Black Lung Act.

PPL and its subsidiaries have evaluated the provisions of Health Care Reform and have included the applicable provision in the valuation of those benefit plans that are impacted. The inclusion of the various provision of Health Care Reform did not have a material impact on the financial statements. PPL and its subsidiaries will continue to monitor the potential impact of any changes to the existing provisions and implementation guidance related to Health Care Reform on their benefit programs.

14. Jointly Owned Facilities

(PPL, PPL Energy Supply, LKE, LG&E and KU)

At December 31, 2011 and 2010, the Balance Sheets reflect the owned interests in the facilities listed below.

	Ownership Interest	Electric Plant	Other Property	Accumulated Depreciation	Construction Work in Progress
PPL					
December 31, 2011					
Generating Plants					
Susquehanna	90.00%	$ 4,608		$ 3,496	$ 42
Conemaugh	16.25%	233		115	14
Keystone	12.34%	198		69	3
Trimble County Units 1 & 2	75.00%	1,245		61	35
Merrill Creek Reservoir	8.37%		$ 22	15	
December 31, 2010					
Generating Plants					
Susquehanna	90.00%	$ 4,553		$ 3,487	$ 79
Conemaugh	16.25%	213		106	11
Keystone	12.34%	196		60	2
Trimble County Units 1 & 2	75.00%	352		10	907
Merrill Creek Reservoir	8.37%		$ 22	15	
PPL Energy Supply					
December 31, 2011					
Generating Plants					
Susquehanna	90.00%	$ 4,608		$ 3,496	$ 42
Conemaugh	16.25%	233		115	14
Keystone	12.34%	198		69	3
Merrill Creek Reservoir	8.37%		$ 22	15	

	Ownership Interest	Electric Plant	Other Property	Accumulated Depreciation	Construction Work in Progress
December 31, 2010					
Generating Plants					
Susquehanna	90.00%	$ 4,553		$ 3,487	$ 79
Conemaugh	16.25%	213		106	11
Keystone	12.34%	196		60	2
Merrill Creek Reservoir	8.37%		$ 22	15	
LKE					
December 31, 2011					
Generating Plants					
Trimble County Unit 1	75.00%	$ 297		$ 19	$ 11
Trimble County Unit 2	75.00%	948		42	24
December 31, 2010					
Generating Plants					
Trimble County Unit 1	75.00%	$ 288		$ 9	$ 17
Trimble County Unit 2	75.00%	64		1	890
LG&E					
December 31, 2011					
Generating Plants					
Trimble County Units 7-10 (a)	37.00%	$ 64		$ 4	$ 1
E.W. Brown Units 6-7 (a)	38.00%	39		3	
Trimble County Units 5-6 (a)	29.00%	31		1	
Paddy's Run Unit 13 & E.W. Brown Unit 5 (a)	53.00%	44		2	5
Trimble County Unit 1	75.00%	297		19	11
Trimble County Unit 2	14.25%	190		7	7
December 31, 2010					
Generating Plants					
Trimble County Units 7-10 (a)	37.00%	$ 63		$ 1	$ 1
E.W. Brown Units 6-7 (a)	38.00%	39		2	1
Trimble County Units 5-6 (a)	29.00%	26			2
Paddy's Run Unit 13 & E.W. Brown Unit 5 (a)	53.00%	44			4
Trimble County Unit 1	75.00%	288		9	17
Trimble County Unit 2	14.25%	2			187
KU					
December 31, 2011					
Generating Plants					
Trimble County Units 7-10 (a)	63.00%	$ 109		$ 6	$ 5
E.W. Brown Units 6-7 (a)	62.00%	64		5	
Trimble County Units 5-6 (a)	71.00%	66		2	4
Paddy's Run Unit 13 & E.W. Brown Unit 5 (a)	47.00%	39		2	4
Trimble County Unit 2	60.75%	758		35	17
December 31, 2010					
Generating Plants					
Trimble County Units 7-10 (a)	63.00%	$ 107		$ 1	$ 2
E.W. Brown Units 6-7 (a)	62.00%	64		2	
Trimble County Units 5-6 (a)	71.00%	64		1	3
Paddy's Run Unit 13 & E.W. Brown Unit 5 (a)	47.00%	39			4
Trimble County Unit 2	60.75%	62		1	703

(a) These jointly owned facilities at LG&E and KU are entirely owned by LKE and thus are not jointly owned at the LKE or PPL level.

In addition to the interests mentioned above, PPL Montana has a 50% leasehold interest in Colstrip Units 1 and 2 and a 30% leasehold interest in Colstrip Unit 3 under operating leases. See Note 11 for additional information. At December 31, 2011 and 2010, NorthWestern owned a 30% leasehold interest in Colstrip Unit 4. PPL Montana and NorthWestern have a sharing agreement to govern each party's responsibilities regarding the operation of Colstrip Units 3 and 4, and each party is responsible for 15% of the respective operating and construction costs, regardless of whether a particular cost is specified to Colstrip Unit 3 or 4.

Each subsidiary owning these interests provides its own funding for its share of the facility. Each receives a portion of the total output of the generating plants equal to its percentage ownership. The share of fuel and other operating costs associated with the plants is included in the corresponding operating expenses on the Statements of Income.

15. Commitments and Contingencies

Energy Purchases, Energy Sales and Other Commitments

Energy Purchase Commitments

(PPL and PPL Energy Supply)

PPL Energy Supply enters into long-term purchase contracts to supply the fuel requirements and other costs of production for generation facilities. These contracts include commitments to purchase coal, emission allowances, limestone, natural gas, oil and nuclear fuel. These long-term contracts extend through 2023, with the exception of a limestone contract that extends through 2030. PPL Energy Supply also enters into long-term contracts for the storage and transportation of natural gas. The long-term natural gas storage contracts extend through 2015, and the long-term natural gas transportation contracts extend through 2032. PPL Energy Supply has entered into long-term contracts to purchase power that extend through 2017, with the exception of long-term power purchase agreements for the full output of two wind farms that extend through 2027. Additionally, PPL Energy Supply has entered into REC contracts that extend through 2038.

In 2008, PPL EnergyPlus acquired the rights to an existing long-term tolling agreement associated with the capacity and energy of Ironwood. Under the agreement, PPL EnergyPlus has control over the plant's dispatch into the electricity grid and supplies the natural gas necessary to operate the plant. The tolling agreement extends through 2021. See Note 11 for additional information.

(PPL, LKE, LG&E and KU)

LG&E and KU have a power purchase agreement with OVEC, extended in February 2011 to June 2040. FERC approval of the extension was received in May 2011, followed by KPSC and VSCC approvals in August 2011. Pursuant to the OVEC power purchase contract, LG&E and KU are responsible for their pro-rata share of certain obligations of OVEC under defined circumstances. These potential liabilities include unpaid OVEC indebtedness as well as shortfall amounts in certain excess decommissioning costs and other post-employment and post-retirement benefit costs other than pension. LKE's proportionate share of OVEC's outstanding debt was $117 million at December 31, 2011, consisting of LG&E's share of $81 million and KU's share of $36 million. Future obligations for power purchases from OVEC are unconditional demand payments, comprised of annual minimum debt service payments, as well as contractually required reimbursement of plant operating, maintenance and other expenses as follows:

	LG&E	KU	Total
2012	$ 20	$ 9	$ 29
2013	21	9	30
2014	21	9	30
2015	21	10	31
2016	22	10	32
Thereafter	595	264	859
	$ 700	$ 311	$ 1,011

In addition, LG&E and KU had total energy purchases under the OVEC power purchase agreement for the periods ended as follows:

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
LG&E	$ 22	$ 4	$ 17	$ 19
KU	10	2	7	8
Total	$ 32	$ 6	$ 24	$ 27

LG&E and KU enter into purchase contracts to supply the coal and natural gas requirements for generation facilities and LG&E's gas supply operations. The coal contracts extend through 2016 and the natural gas contracts extend through 2013. LG&E and KU also enter into contracts for other coal related consumables, coal transportation and fleeting services, which expire at different time periods through 2018. LG&E and KU also have transportation contracts for natural gas that extend through 2018.

(PPL and PPL Electric)

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

(PPL Energy Supply and PPL Electric)

See Note 16 for information on the power supply agreements between PPL EnergyPlus and PPL Electric.

Energy Sales Commitments

(PPL and PPL Energy Supply)

In connection with its marketing activities or hedging strategy for its power plants, PPL Energy Supply has entered into long-term power sales contracts that extend through 2024, excluding long-term retail sales agreements for the full output from solar generators that extend through 2036.

(PPL Energy Supply and PPL Electric)

See Note 16 for information on the power supply agreements between PPL EnergyPlus and PPL Electric.

PPL Montana Hydroelectric License Commitments *(PPL and PPL Energy Supply)*

PPL Montana owns and operates 11 hydroelectric facilities and one storage reservoir licensed by the FERC under long-term licenses pursuant to the Federal Power Act. Pursuant to Section 8(e) of the Federal Power Act, the FERC approved the transfer from Montana Power to PPL Montana of all pertinent licenses in connection with the Montana Asset Purchase Agreement.

The Kerr Dam Project license (50-year term) was jointly issued by the FERC to Montana Power and the Confederated Salish and Kootenai Tribes of the Flathead Nation in 1985, and requires PPL Montana (as successor licensee to Montana Power) to hold and operate the project for at least 30 years (to 2015). Between 2015 and 2025, the tribes have the option to purchase, hold and operate the project for the remainder of the license term, which expires in 2035. PPL Montana cannot predict if and when this option will be exercised. The license also requires PPL Montana to continue to implement a plan to mitigate the impact of the Kerr Dam on fish, wildlife and their habitats. Under this arrangement, PPL Montana has a remaining commitment to spend $8 million between 2012 and 2015, in addition to the annual rent it pays to the tribes.

PPL Montana entered into two Memoranda of Understanding (MOUs) with state, federal and private entities related to the issuance in 2000 of the FERC renewal license for the nine dams comprising the Missouri-Madison project. The MOUs are periodically updated and renewed and require PPL Montana to implement plans to mitigate the impact of its projects on fish, wildlife and their habitats, and to increase recreational opportunities. The MOUs were created to maximize collaboration between the parties and enhance the possibility to receive matching funds from relevant federal agencies. Under these arrangements, PPL Montana has a remaining commitment to spend $32 million between 2012 and 2040.

Legal Matters

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

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

TC2 Construction *(PPL, LKE, LG&E and KU)*

In June 2006, LG&E and KU, as well as the Indiana Municipal Power Agency and Illinois Municipal Electric Agency (collectively, TC2 Owners), entered into a construction contract regarding the TC2 project. The contract is generally in the form of a turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price. During 2009 and 2010, the TC2 Owners received several contractual notices from the TC2 construction contractor asserting historical force majeure and excusable event claims for a number of adjustments to the contract price, construction schedule, commercial operations date, liquidated damages or other relevant provisions. In September 2010, the TC2 Owners and the construction contractor agreed to a settlement to resolve the force majeure and excusable event claims occurring through July 2010, under the TC2 construction contract, which settlement provided for a limited, negotiated extension of the contractual commercial operations date and/or relief from liquidated damage calculations. With limited exceptions, the TC2 Owners took care, custody and control of TC2 in January 2011. Pursuant to certain amendments to the construction agreement, the contractor will complete modifications to the combustion system prior to certain dates to allow operation of TC2 on all specified fuels categories. The provisions of the construction agreement relating to liquidated damages were also amended. In September 2011, the TC2 Owners and the construction contractor entered into a further amendment to the construction agreement settling, among other matters, certain historical change order, labor rate and prior liquidated damages amounts. The remaining issues are still under discussion with the contractor. PPL, LKE, LG&E and KU cannot currently predict the outcome of this matter or the potential impact on the capital costs of this project.

(PPL and PPL Energy Supply)

Spent Nuclear Fuel Litigation

Federal law requires the U.S. government to provide for the permanent disposal of commercial spent nuclear fuel, but there is no definitive date by which a repository will be operational. As a result, it was necessary to expand Susquehanna's on-site spent fuel storage capacity. To support this expansion, PPL Susquehanna contracted for the design and construction of a spent fuel storage facility employing dry cask fuel storage technology. The facility is modular, so that additional storage capacity can be added as needed. The facility began receiving spent nuclear fuel in 1999. PPL Susquehanna estimates that there is sufficient storage capacity in the spent nuclear fuel pools and the on-site dry cask storage facility at Susquehanna to accommodate spent fuel discharged through approximately 2017 under current operating conditions. If necessary, on-site dry cask storage capability can be expanded, assuming appropriate regulatory approvals are obtained, such that, together, the spent fuel pools and the expanded dry fuel storage facilities will accommodate all of the spent fuel expected to be discharged through the current licensed life of each unit, 2042 for Unit 1 and 2044 for Unit 2.

In 1996, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court) ruled that the Nuclear Waste Policy Act imposed on the DOE an unconditional obligation to begin accepting spent nuclear fuel on or before January 31, 1998. In 1997, the D.C. Circuit Court ruled that the contracts between the utilities and the DOE provide a potentially adequate remedy if the DOE failed to begin accepting spent nuclear fuel by January 31, 1998. The DOE did not, in fact, begin to accept spent nuclear fuel by that date. The DOE continues to contest claims that its breach of contract resulted in recoverable damages. In January 2004, PPL Susquehanna filed suit in the U.S. Court of Federal Claims for unspecified damages suffered as a result of the DOE's breach of its contract to accept and dispose of spent nuclear fuel. In May 2011, the parties entered into a settlement agreement which resolved all claims of PPL Susquehanna through December 2013. Under the settlement agreement, PPL Susquehanna received $50 million for its share of claims to recover costs to store spent nuclear fuel at the Susquehanna plant through September 30, 2009, and recognized a credit to "Fuel" expense in the second quarter of 2011. PPL Susquehanna also will be eligible to receive payment of annual claims for allowed costs, as set forth in the settlement agreement, that are incurred thereafter through the December 31, 2013 termination date of the settlement agreement. In exchange, PPL Susquehanna has waived any claims against the United States government for costs paid or injuries sustained related to storing spent nuclear fuel at the Susquehanna plant through December 31, 2013.

Montana Hydroelectric Litigation

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

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

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

In 2009, PPL Montana adjusted its previously recorded accrual by $8 million, $5 million after tax. Of this total, $5 million, $3 million after tax, related to prior periods. In March 2010, the Montana Supreme Court substantially affirmed the June 2008 Montana District Court decision. As a result, in the first quarter of 2010, PPL Montana recorded a charge of $56 million ($34 million after tax or $0.08 per share, basic and diluted, for PPL), representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. Rental compensation was estimated for periods subsequent to 2007. The portion of the pre-tax charge that related to prior years totaled $54 million ($32 million after tax). The charge recorded on the Statement of Income was $49 million in "Other operation and maintenance" and $7 million in "Interest Expense." PPL Montana continued to accrue interest expense for the prior years and rent expense for the subsequent years.

In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting review of this matter. In June 2011, the U.S. Supreme Court granted PPL Montana's petition. Oral argument was held in December 2011 and on February 22, 2012, the U.S. Supreme Court issued a decision overturning the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. As a result, PPL Montana reversed its total loss accrual of $89 million ($53 million after-tax or $0.09 per share, basic and diluted for PPL), which had been recorded prior to the U.S. Supreme Court decision. The amount reversed was recorded on the Statements of Income as a $75 million credit to "Other operation and maintenance" and a $14 million credit to "Interest Expense." PPL Montana believes the U.S. Supreme Court decision resolves certain questions of liability in this case in favor of PPL Montana and leaves open for reconsideration by Montana courts, consistent with the findings of the U.S. Supreme Court, certain other questions. The State of Montana has 30 days from February 22, 2012 to petition the U.S. Supreme Court for a rehearing. PPL Montana has concluded it is no longer probable, but it remains reasonably possible, that a loss has been incurred. While unable to estimate a range of loss, PPL Montana believes that any such amount would not be material.

Bankruptcy of Southern Montana Electric Generation and Transmission Cooperative, Inc.

On October 21, 2011, SMGT, a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus expiring in June 2019 (SMGT Contract), filed for protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court in Montana. At the time of the bankruptcy filing, SMGT was PPL EnergyPlus' largest customer.

The SMGT Contract provides for fixed volume purchases on a monthly basis at established prices. A trustee has been appointed for SMGT's estate in the bankruptcy proceeding, and PPL EnergyPlus has been involved in preliminary discussions with the trustee concerning possible modifications to the SMGT Contract as part of the bankruptcy reorganization. Pursuant to a court order and subsequent stipulations entered into by SMGT and PPL EnergyPlus, since the date of its Chapter 11 filing through January 2012, SMGT continued to purchase electricity from PPL EnergyPlus at the price specified in the SMGT Contract, and has made timely payments for such purchases, but at lower volumes than as prescribed in the SMGT Contract. During January 2012, the trustee notified PPL EnergyPlus that SMGT would not purchase electricity under the SMGT Contract for the month of February. In addition, the trustee requested PPL EnergyPlus to leave the SMGT Contract in place to permit SMGT to purchase electricity in the event its requirements were not met by third-party providers from whom the trustee intends to purchase power on behalf of SMGT, at prices more favorable than under the SMGT Contract, for future periods. PPL EnergyPlus is evaluating the trustee's request.

PPL EnergyPlus' damage claim under the SMGT Contract totaled approximately $11 million at December 31, 2011, all of which has been fully reserved. No assurance can be given as to the collectability of these damages.

At the present time, PPL cannot predict whether SMGT will be successful in its attempts to reorganize its business under Chapter 11 of the U.S. Bankruptcy Code or the extent to which the SMGT Contract may be modified as part of a successful Chapter 11 reorganization and, in either case, PPL cannot presently predict the extent to which it will be able to market to third parties any amount of power that SMGT ultimately does not continue to purchase from PPL EnergyPlus.

Regulatory Issues

(PPL, PPL Electric, LKE, LG&E and KU)

See Note 6 for information on regulatory matters related to utility rate regulation.

Enactment of Financial Reform Legislation *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

In July 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act includes provisions that impose derivative transaction reporting requirements and require most over-the-counter derivative transactions to be executed through an exchange and to be centrally cleared. The Dodd-Frank Act also provides that the CFTC may impose collateral and margin requirements for over-the-counter derivative transactions, as well as capital requirements for certain entity classifications. Final rules on major provisions in the Dodd-Frank Act are being established through rulemakings, and the CFTC generally has postponed implementation until the later of July 16, 2012 or when required key final rules are issued (e.g. definitional rules for "swap" and "swap dealer"). In order to comply with implementing regulations of the Dodd-Frank Act, the Registrants likely will be faced with significant new recordkeeping and reporting requirements. Also, the Registrants could face significantly higher operating costs or may be required to post additional collateral if they are subject to margin requirements as ultimately adopted in the implementing regulations of the Dodd-Frank Act. The Registrants will continue to evaluate the provisions of the Dodd-Frank Act. At this time, the Registrants cannot predict the impact that the law or its implementing regulations will have on their businesses or operations, or the markets in which they transact business, but could incur material costs related to compliance with the Dodd-Frank Act.

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

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

In addition, in February 2011, PPL, and several other generating companies and utilities filed a complaint in U.S. District Court in New Jersey challenging the Act on the grounds that it violates well-established principles under the Supremacy Clause and the Commerce Clause of the U.S. Constitution. In this action, the plaintiffs request declaratory and injunctive relief barring implementation of the Act by the Commissioners of the BPU. In October 2011, the court denied the BPU's motion to dismiss the proceeding and the litigation is moving forward. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

Pacific Northwest Markets *(PPL and PPL Energy Supply)*

Through its subsidiaries, PPL Energy Supply made spot market bilateral sales of power in the Pacific Northwest during the period from December 2000 through June 2001. Several parties subsequently claimed refunds at FERC as a result of these sales. In June 2003, the FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. In August 2007, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC's decision and ordered the FERC to consider additional evidence. In October 2011, FERC initiated proceedings to consider additional evidence.

Although PPL and its subsidiaries believe that they have not engaged in any improper trading or marketing practices affecting the Pacific Northwest markets, PPL and PPL Energy Supply cannot predict the outcome of the above-described proceedings or whether any subsidiaries will be the subject of any additional governmental investigations or named in other lawsuits or refund proceedings. Consequently, PPL and PPL Energy Supply cannot estimate a range of reasonably possible losses, if any, related to this matter.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

FERC Market-Based Rate Authority

In November 1998, the FERC authorized LG&E and KU and, in December 1998, authorized PPL EnergyPlus to make wholesale sales of electric power and related products at market-based rates. In those orders, the FERC directed LG&E and KU and PPL EnergyPlus, respectively, to file an updated market analysis within three years after the order, and every three years thereafter. Since then, periodic market-based rate filings with the FERC have been made by LG&E, KU, PPL EnergyPlus, PPL Electric, PPL Montana and most of PPL Generation's subsidiaries. These filings consisted of a Northwest market-based rate filing for PPL Montana and a Northeast market-based rate filing for most of the other PPL subsidiaries in PJM's region. In June 2011, FERC approved PPL's market-based rate update for the Eastern region and PPL's market-based rate update for the Western region. Also, in June 2011, PPL filed its market-based rate update for the Southeast region, including LG&E and KU in addition to PPL EnergyPlus. In June 2011, the FERC issued an order approving LG&E's and KU's request for a determination that they no longer be deemed to have market power in the Big Rivers Electric Corporation balancing area and removing restrictions on their market-based rate authority in such region.

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

Energy Policy Act of 2005 - Reliability Standards

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

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

LG&E, KU , PPL Electric and certain subsidiaries of PPL Energy Supply monitor their compliance with the Reliability Standards and continue to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans, as required. The resolution of a number of potential violations is pending. Any regional reliability entity determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC. The Registrants cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any, other than the amounts currently recorded.

In the course of implementing its program to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time.

Environmental Matters - Domestic

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

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

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Air

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

To comply with air-related requirements and other environmental requirements as described below, PPL's forecast for capital expenditures reflects a best estimate projection of expenditures that may be required within the next five years. Such projections are a combined $3.1 billion for LG&E and KU. These projections include $100 million for LG&E and $400 million for KU associated with currently approved ECR plans through 2013 to achieve emissions reductions and manage coal combustion residuals. The projections also include $1.4 billion for LG&E and $900 million for KU associated with the recently approved 2011 ECR Plans for additional expenditures to comply with new clean air rules and manage coal combustion residuals and an additional $300 million for other environmental expenditures. Such projections for PPL Energy Supply are $130 million. Actual costs (including capital, allowance purchases and operational modifications) may be significantly lower or higher depending on the final requirements and market conditions. Certain environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are subject to recovery through the ECR. See Note 6 for additional information on LG&E and KU's ECR plan.

CSAPR (formerly Clean Air Transport Rule)

In July 2011, the EPA signed the CSAPR, which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010, and made revisions to the rule on February 7, 2012. The CSAPR replaces the EPA's previous Clean Air Interstate Rule (CAIR) which was struck down by the U.S. Court of Appeals for the District of Columbia Circuit (the Court) in July 2008. CAIR subsequently was effectively reinstated by the Court in December 2008, pending finalization of the Transport Rule. Like CAIR and the proposed Transport Rule, the CSAPR only applies to PPL's coal generation facilities located in Kentucky and Pennsylvania.

The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxides. The CSAPR established new sulfur dioxide emission allowance cap and trade programs that are completely independent of, and more stringent than, the current Acid Rain Program. The CSAPR also established new nitrogen oxides emission allowance cap and trade programs to replace the current programs. All trading is more restrictive than previously under CAIR. The CSAPR provides for two-phased programs of sulfur dioxide and nitrogen oxide emissions reductions, with initial reductions in 2012 and more stringent reductions in 2014.

In December 2011, the Court stayed implementation of the CSAPR and left CAIR in effect pending a final resolution on the merits of the validity of the rule. Oral argument on the various challenges to the CSAPR is scheduled for April 2012, and a final decision on the validity of the rule could be released as early as May 2012.

With respect to the Kentucky coal-fired generating plants, the stay of the CSAPR will initially only impact the unit dispatch order. With the return of the CAIR and the Kentucky companies' significant number of sulfur dioxide allowances, those units will be dispatched with lower operating cost, but slightly higher sulfur dioxide and nitrogen oxide emissions. However, a key component of the Court's final decision, even if the CSAPR is upheld, will be whether the ruling delays the implementation of the CSAPR by one year for both Phases I and II, or instead still requires the significant sulfur dioxide and nitrogen oxide reductions associated with Phase II to begin in 2014. LG&E's and KU's CSAPR compliance strategy is based on over-compliance during Phase I to generate allowances sufficient to cover the expected shortage during the first two years of Phase II (2014 and 2015) when additional pollution control equipment will be installed. Should Phase I of the CSAPR be shortened to one year, it will be more difficult and costly to provide enough excess allowances in one year to meet the shortage projected for 2014 and 2015.

PPL Energy Supply's coal fired power plants can meet both the CAIR and the proposed CSAPR sulfur dioxide emission requirements with the existing scrubbers that went in-service in 2008 and 2009. For nitrogen oxide, under both the CAIR and the proposed CSAPR, PPL Energy Supply would need to buy allowances or make operational changes, the cost of which is not anticipated to be significant.

National Ambient Air Quality Standards

In addition to the reductions in sulfur dioxide and nitrogen oxide emissions required under the CSAPR for the Pennsylvania and Kentucky plants, PPL's coal plants, including those in Montana, may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. The EPA has recently finalized a new one-hour standard for sulfur dioxide, and states are required to identify areas that meet those standards and areas that are in non-attainment. For non-attainment areas, states are required to develop plans by 2014 to achieve attainment by 2017. For areas in attainment or that are unclassifiable, states are required to develop maintenance plans by mid-2013 that demonstrate continued attainment. PPL, PPL Energy Supply, LKE, LG&E and KU anticipate that some of the measures required for compliance with the CSAPR such as upgraded or new sulfur dioxide scrubbers at some of their plants or, in the case of LG&E and KU, upgraded or new sulfur dioxide scrubbers at the Mill Creek plant and retirement of the Cane Run, Green River, and Tyrone plants, will also be necessary to achieve compliance with the new one-hour sulfur dioxide standard. If additional reductions were to be required, the economic impact could be significant.

Mercury and Other Hazardous Air Pollutants

In May 2011, the EPA published a proposed regulation providing for stringent reductions of mercury and other hazardous air pollutants. On February 16, 2012, the EPA published the final rule, known as the Mercury and Air Toxics Standards (MATS), with an effective date of April 16, 2012. The rule provides for a three-year compliance deadline with the potential for a one-year extension as provided under the statute. Based on their assessment of the need to install pollution control equipment to meet the provisions of the proposed rule, LG&E and KU filed requests with the KPSC for environmental cost recovery to facilitate moving forward with plans to install environmental controls including sorbent injection and fabric-filter baghouses to remove certain hazardous air pollutants. Recovery of the cost of certain controls was granted by KPSC order issued in December 2011. The cost for these controls is reflected in the combined costs of $3.1 billion for LG&E and KU noted under "Air" above. LG&E and KU have also announced the anticipated retirement of coal-fired generating units at the Cane Run, Green River, and Tyrone plants and have filed requests with the KPSC for replacement of those units with natural gas-fired generating units to be constructed or purchased. With the publication of the final MATS rule, LG&E and KU are currently assessing whether changes in the final rule warrant revision of their approved compliance plans. With respect to PPL Energy Supply's Pennsylvania plants, PPL believes that these plants are reasonably well controlled and require installation of chemical additive systems, the cost of which is not expected to be material. With respect to PPL Montana plants, modifications to the current air pollution controls installed on Colstrip may be required, the cost of which also is not expected to be material. For the Corette plant, additional controls are being evaluated, the cost of which could be significant. PPL Energy Supply, LG&E and KU are continuing to conduct in-depth reviews of the MATS.

Regional Haze and Visibility

In January 2012, the EPA proposed limited approval of the Pennsylvania Regional Haze State Implementation Plan. That proposed action would essentially approve PPL's analysis that further particulate controls at PPL Energy Supply's Pennsylvania plants are not warranted. The limited approval does not address deficiencies of the state plan arising from the remand of the CAIR rule. Previously, the EPA had determined that implementation of the CAIR requirements would meet regional haze BART (Best Available Retrofit Technology) requirements for sulfur dioxide and nitrogen oxides. In December 2011, the EPA proposed that implementation of the CSAPR would also meet the BART. This is expected to address that deficiency.

In Montana, the EPA Region 8 is developing the regional haze plan as the Montana Department of Environmental Quality declined to develop a BART state implementation plan at this time. PPL submitted to the EPA its analyses of the visibility impacts of sulfur dioxide, nitrogen oxides and particulate matter emissions for Colstrip Units 1 and 2 and Corette. PPL's analyses concluded that further reductions are not warranted. The EPA responded to PPL's reports for Colstrip and Corette and requested further information and analysis. PPL completed further analysis and submitted addendums to its initial reports for Colstrip and Corette. In February 2009, PPL received an information request for data related to the non-BART-affected emission sources of Colstrip Units 3 and 4. PPL responded to this request in March 2009.

In November 2010, PPL Montana received a request from the EPA Region 8, under the EPA's Reasonable Further Progress goals of the Regional Haze Rules, to provide further analysis with respect to Colstrip Units 3 and 4. PPL completed a high-level analysis of various control options to reduce emissions of sulfur dioxide and particulate matter for these units, and submitted that analysis to the EPA in January 2011. The analysis shows that any incremental reductions would not be cost effective and that further analysis is not warranted. PPL also concluded that further analysis for nitrogen oxides was not justifiable as these units installed controls under a Consent Decree in which the EPA had previously agreed that, when implemented, would satisfy the requirements for installing the BART for nitrogen oxides. The EPA is expected to issue a proposed Federal Implementation Plan for Montana in March 2012. Discussions with the EPA are ongoing with respect to this issue.

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

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

New Source Review (NSR)

The NSR regulations require major new or modified sources of regulated pollutants to receive pre-construction and operating permits with limits that prevent the significant deterioration of air quality in areas that are in attainment of the ambient air quality standards for certain pollutants.

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

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

In March 2009, KU received a notice alleging that KU violated certain provisions of the Clean Air Act's rules governing NSR and prevention of significant deterioration by installing sulfur dioxide scrubbers and SCR controls at its Ghent generating plant without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. In December 2009, the EPA issued an information request on this matter. KU has exchanged settlement proposals and other information with the EPA regarding imposition of additional permit limits and emission controls and anticipates continued settlement negotiations. In addition, any settlement or future litigation could potentially encompass a September 2007 notice of violation alleging opacity violations at the plant. Depending on the provisions of a final settlement or the results of litigation, if any, resolution of this matter could involve significant increased operating and capital expenditures. PPL, LKE and KU cannot predict the final outcome of this matter, but currently do not expect such outcome to result in material losses above the respective amounts accrued by KU.

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

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

TC2 Air Permit (PPL, LKE, LG&E and KU)

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

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Global Climate Change

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

Greenhouse Gas Legislation

While climate change legislation was considered during the 111th Congress, the outcome of the 2010 elections has halted the debate on such legislation in the current 112th Congress. The timing and elements of any future legislation addressing GHG emission reductions are uncertain at this time. In the current Congress, legislation barring the EPA from regulating GHG emissions under the existing authority of the Clean Air Act has been passed by the U.S. House of Representatives. Various bills providing for barring or delaying the EPA from regulating GHG emissions have been introduced in the U.S. Senate, but the prospects for passage of such legislation remain uncertain. At the state level, the 2010 elections in Pennsylvania have also reduced the likelihood of GHG legislation in the near term, and there are currently no prospects for such legislation in Kentucky or Montana.

Greenhouse Gas Regulations and Tort Litigation

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

At the regional level, ten northeastern states signed a Memorandum of Understanding (MOU) agreeing to establish a GHG emission cap-and-trade program, called the Regional Greenhouse Gas Initiative (RGGI). The program commenced in January 2009 and calls for stabilizing carbon dioxide emissions, at base levels established in 2005, from electric power plants with capacity greater than 3 MW. The MOU also provides for a 10% reduction in carbon dioxide emissions from base levels by 2019.

Pennsylvania has not stated an intention to join the RGGI, but has enacted the Pennsylvania Climate Change Act of 2008 (PCCA). The PCCA established a Climate Change Advisory Committee to advise the PADEP on the development of a Climate Change Action Plan. In December 2009, the Advisory Committee finalized its Climate Change Action Report which identifies specific actions that could result in reducing GHG emissions by 30% by 2020. Some of the proposed actions, such as a mandatory 5% efficiency improvement at power plants, could be technically unachievable. To date, there have been no regulatory or legislative actions taken to implement the recommendations of the report. In addition, legislation has been introduced that would, if enacted, accelerate the solar supply requirements and restrict eligible solar projects to those located in Pennsylvania. PPL cannot predict at this time whether this legislation will be enacted.

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

In November 2008, the Governor of Kentucky issued a comprehensive energy plan including non-binding targets aimed at promoting improved energy efficiency, development of alternative energy, development of carbon capture and sequestration projects, and other actions to reduce GHG emissions. In December 2009, the Kentucky Climate Action Plan Council was established to develop an action plan addressing potential GHG reductions and related measures. To date the state has yet to issue a final plan. The impact of any such plan is not now determinable, but the costs to comply with the plan could be significant.

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting facilities, and the law remains unsettled on these claims. In September 2009, the U.S.

Court of Appeals for the Second Circuit in the case of AEP v. Connecticut reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In June 2011, the U.S. Supreme Court overturned the lower court and held that such federal common law claims were displaced by the Clean Air Act and regulatory actions of the EPA. In Comer v. Murphy Oil, the U.S. Court of Appeals for the Fifth Circuit declined to overturn a district court ruling that plaintiffs did not have standing to pursue state common law claims against companies that emit GHGs. The complaint in the Comer case named the previous indirect parent of LKE as a defendant based upon emissions from the Kentucky plants. In January 2011, the Supreme Court denied a petition to reverse the Court of Appeals' ruling. In May 2011, the plaintiffs in the Comer case filed a substantially similar complaint in federal district court in Mississippi against 87 companies, including KU and three other indirect subsidiaries of LKE, under a Mississippi statute that allows the re-filing of an action in certain circumstances. Additional litigation in federal and state courts over these issues is continuing. PPL, LKE and KU cannot predict the outcome of this litigation or estimate a range of reasonably possible losses, if any.

In 2011, PPL's power plants emitted approximately 74 million tons of carbon dioxide compared with 68 million tons in 2010. The totals reflect 36 million tons from PPL Generation and 38 million tons from LG&E's and KU's generating fleet. All tons are U.S. short tons (2,000 lbs/ton).

Renewable Energy Legislation (PPL and PPL Energy Supply)

There has been interest in renewable energy legislation at both the state and federal levels. At the federal level, House and Senate bills proposed in the 111th Congress would have imposed mandatory renewable energy supply and energy efficiency requirements in the 15% to 20% range by approximately 2020. Earlier in 2011, there were discussions regarding a Clean Energy Standard (CES) that addressed not only renewables but also encouraged clean energy requirements (as yet to be defined). At this time, neither the renewable energy debate nor the CES discussion is expected to gain momentum at the federal or state levels (beyond what is otherwise already required in Pennsylvania and Montana) in the near term.

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

Water/Waste

Coal Combustion Residuals (CCRs) (PPL, PPL Energy Supply, LKE, LG&E and KU)

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

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

The EPA is continuing to evaluate the unprecedented number of comments it received on its June 2010 proposed regulations. In October 2011, the EPA issued a Notice of Data Availability (NODA) that requests comments on selected documents that the EPA received during the comment period for the proposed regulations. Comments were submitted on the NODA in November 2011. In addition, the U.S. House of Representatives in October 2011 approved a bill to modify Subtitle D of the RCRA to provide for the proper management and disposal of CCRs and that would preclude the EPA from regulating CCRs under Subtitle C of the RCRA. The bill has been introduced in the Senate and the prospect for passage of this legislation is uncertain. In January 2012, a coalition of environmental groups filed a 60-day notice of intent to sue the EPA for failure to perform nondiscretionary duties under RCRA, which could require a hard deadline for EPA to issue strict CCR regulations. In February 2012, a CCR recycling company also issued a 60-day notice of intent to sue the EPA over its timeliness in issuing CCR regulations, but that company requests that the EPA take a Subtitle D approach that would allow for continued recycling of CCRs.

PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the final requirements of the EPA's CCR regulations or potential changes to the RCRA and what impact they would have on their facilities, but the economic impact could be significant.

Martins Creek Fly Ash Release (PPL and PPL Energy Supply)

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

The PADEP filed a complaint in Pennsylvania Commonwealth Court against PPL Martins Creek and PPL Generation, alleging violations of various state laws and regulations and seeking penalties and injunctive relief. PPL and the PADEP have settled this matter. The settlement also required PPL to submit a report on the completed studies of possible natural resource damages. PPL subsequently submitted the assessment report to the Pennsylvania and New Jersey regulatory agencies and has continued discussing potential natural resource damages and mitigation options with the agencies. Subsequently, in August 2011 the DEP submitted its National Resource Damage Assessment report to the court and to the intervenors. The intervenors have commented on the report and the PADEP and PPL recently filed separate responses with the court. The settlement agreement for the Natural Resources Damage Claim has not yet been submitted to the court or for public comments.

Through December 31, 2011, PPL Energy Supply has spent $28 million for remediation and related costs and an insignificant remediation liability remains on the balance sheet. PPL and PPL Energy Supply cannot be certain of the outcome of the natural resource damage assessment or the associated costs, the outcome of any lawsuit that may be brought by citizens or businesses or the exact nature of any other regulatory or other legal actions that may be initiated against PPL, PPL Energy Supply or their subsidiaries as a result of the disposal basin release. However, PPL and PPL Energy Supply currently do not expect such outcomes to result in material losses above the amounts currently recorded.

Seepages and Groundwater Infiltration - Pennsylvania, Montana and Kentucky

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various PPL plants. PPL has completed or is completing assessments of seepages or groundwater infiltration at various facilities and is working with agencies to implement abatement measures, where required. A range of reasonably possible losses cannot currently be estimated.

(PPL and PPL Energy Supply)

In 2007, six plaintiffs filed a lawsuit in the Montana Sixteenth Judicial District Court against the Colstrip plant owners asserting property damage claims from seepage from wastewater ponds at Colstrip. A settlement agreement was reached in July 2010 which would have resulted in a payment by PPL Montana, but certain of the plaintiffs later argued that the settlement was not final. The Colstrip plant owners filed a motion to enforce the settlement and in October 2011 the court granted the motion and ordered the settlement to be completed in 60 days. The plaintiffs have appealed the October order to the Montana Supreme Court, which is presently being briefed. The parties are in the process of submitting their briefs to the Montana Supreme Court. That court's decision is expected in the second half of 2012. The settlement ordered by the district court is, therefore, not final and PPL and PPL Energy Supply cannot predict the outcome of the appeal, although PPL Montana's share of any final settlement in excess of amounts recorded is not expected to be significant.

Conemaugh River Discharges (PPL and PPL Energy Supply)

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

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

In March 2011, the Western District Court entered a partial summary judgment in the plaintiffs' favor, declaring that discharges from CGS violated the NPDES permit. Subsequently, the parties agreed to settle the dispute and in August 2011 the court entered a Consent Decree and Order resolving the mater. PPL Energy Supply's share of the settlement is not significant.

In a separate matter, the PADEP plans to file a complaint in the Commonwealth Court of Pennsylvania alleging several violations of Clean Streams Law at the Conemaugh generating facility. The PADEP and GenOn Northeast Management Company, the operator, signed and lodged with the court a consent decree that when entered by the court will resolve the issues. It is expected that the court will enter the consent decree in March 2012 after a 30-day public comment period has lapsed. Under the terms of the consent decree, GenOn will be obligated to pay a civil penalty of $500,000. PPL Energy Supply is responsible for 16.25% of this amount.

Other Issues (PPL, PPL Energy Supply, LKE, LG&E and KU)

In 2006, the EPA significantly decreased to 10 parts per billion (ppb) the drinking water standards related to arsenic. In Pennsylvania, Montana and Kentucky, this arsenic standard has been incorporated into the states' water quality standards and could result in more stringent limits in NPDES permits for PPL's Pennsylvania, Montana and Kentucky plants. Subsequently, the EPA developed a draft risk assessment for arsenic that increases the cancer risk exposure by more than 20 times, which would lower the current standard from 10 ppb to 0.1 ppb. If the lower standard becomes effective, costly treatment would be required to attempt to meet the standard and, at this time, there is no assurance that it could be achieved. PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the outcome of the draft risk assessment and what impact, if any, it would have on their facilities, but the costs could be significant.

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

The EPA finalized requirements in 2004 for new or modified cooling water intake structures. These requirements affect where generating facilities are built, establish intake design standards and could lead to requirements for cooling towers at new and modified power plants. Another rule, finalized in 2004, that addressed existing structures was withdrawn following a 2007 decision by the U.S. Court of Appeals for the Second Circuit. In 2009, however, the U.S. Supreme Court ruled that the EPA has discretion to use cost-benefit analysis in determining the best technology available for minimizing adverse environmental impact to aquatic organisms. The EPA published the proposed rule in April 2011. The industry and PPL reviewed the proposed rule and submitted comments. The EPA is evaluating comments and meeting with industry groups to discuss options. The final rule is to be issued by July 2012. The proposed rule contains two requirements to reduce impact to aquatic organisms. The first requires all existing facilities to meet standards for the reduction of mortality of aquatic organisms that become trapped against water intake screens regardless of the levels of mortality actually occurring or the cost of achieving the requirements. The second requirement is to determine and install best technology available to reduce mortality of aquatic organisms that are pulled through the plant's cooling water system. A form of cost-benefit analysis is allowed for this second requirement. This process involves a site-specific evaluation based on nine factors including impacts to energy delivery reliability and remaining useful life of the plant. PPL, PPL Energy Supply, LKE, LG&E and KU will be unable to determine the exact impact until a final rule is issued, the required studies have been completed, and each state in which they operate has decided how to implement the rule.

In October 2009, the EPA released its Final Detailed Study of the Steam Electric Power Generating effluent limitations guidelines and standards. Final regulations are expected to be effective in January 2014. PPL expects the revised guidelines and standards to be more stringent than the current standards especially for sulfur dioxide scrubber wastewater and ash basin discharges, which could result in more stringent discharge permit limits. In the interim, PPL is unable to predict whether the EPA and the states may impose more stringent limits on a case-by-case best professional judgment basis under existing authority as permits are renewed.

PPL has signed a Consent Order and Agreement (the Brunner COA) with the PADEP under which it agreed, under certain conditions, to take further actions to minimize the possibility of fish kills at its Brunner Island plant. Fish are attracted to warm water in the power plant discharge channel, especially during cold weather. Debris at intake pumps can result in a unit trip or reduction in load, causing a sudden change in water temperature. PPL is in the process of constructing a barrier to prevent debris from entering the river water intake area at a cost which is not expected to be material.

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

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the Cabinet issued a final order upholding the permit. In December 2010, the environmental groups appealed the order to state court. PPL, LKE, LG&E, and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible losses, if any.

The EPA and the Army Corps of Engineers are working on a guidance document that will expand the federal government's interpretation of what constitutes "waters of the United States" (WOUS) subject to regulation under the Clean Water Act. This change has the potential to affect generation and delivery operations, with the most significant effect being the potential elimination of the existing regulatory exemption for plant waste water treatment systems. The costs that may be imposed as a result of any eventual expansion of this interpretation cannot reliably be estimated at this time.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Superfund and Other Remediation

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

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

In June 2011, Lepore-Moyers Partnership (LMP) filed a complaint in federal district court against PPL Electric, UGI Corporation and a neighboring property owner relating to contamination allegedly emanating from the former Mount Joy Manufactured Gas Plant (MGP) site located in Lancaster County, Pennsylvania. LMP owns property adjacent to the Mount Joy MGP site and claims that environmental testing done on its property indicates the presence of volatile organic compounds in the soil and/or groundwater. LMP claims that defendants are responsible for, among other things, the reimbursement of costs, future response costs, investigation and remediation of the contamination, and damages caused by the contamination. PPL Electric expects the costs related to this matter to be insignificant.

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which PPL currently lacks information, the costs of remediation and other liabilities could be substantial. PPL and its subsidiaries also could incur other non-remediation costs at sites included in current consent orders or other contaminated sites which could be significant. PPL is unable to estimate a range of reasonably possible losses, if any, related to these matters.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing facilities. PPL cannot estimate a range of reasonably possible losses, if any, related to these matters.

Under the Pennsylvania Clean Streams Law, subsidiaries of PPL Generation are obligated to remediate acid mine drainage at former mine sites and may be required to take additional steps to prevent potential acid mine drainage at previously capped refuse piles. One PPL Generation subsidiary is pumping mine water at two mine sites and treating water at one of these sites. Another PPL Generation subsidiary has installed a passive wetlands treatment system at a third site. At December 31, 2011, PPL Energy Supply had accrued a discounted liability of $24 million to cover the costs of pumping and treating groundwater at the two mine sites for 50 years and for operating and maintaining passive wetlands treatment at the third site. PPL Energy Supply discounted this liability based on risk-free rates at the time of the mine closures. The weighted-average rate used was 8.15%. Expected undiscounted payments are estimated at $2 million for 2012, $1 million for each of the years from 2013 through 2016, and $133 million for work after 2016.

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

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in material additional costs for the Registrants.

Electric and Magnetic Fields

Concerns have been expressed by some members of the public regarding potential health effects of power frequency EMFs, which are emitted by all devices carrying electricity, including electric transmission and distribution lines and substation equipment. Government officials in the U.S. and the U.K. have reviewed this issue. The U.S. National Institute of Environmental Health Sciences concluded in 2002 that, for most health outcomes, there is no evidence that EMFs cause adverse effects. The agency further noted that there is some epidemiological evidence of an association with childhood leukemia, but that the evidence is difficult to interpret without supporting laboratory evidence. The U.K. National Radiological Protection Board (part of the U.K. Health Protection Agency) concluded in 2004 that, while the research on EMFs does not provide a basis to find that EMFs cause any illness, there is a basis to consider precautionary measures beyond existing exposure guidelines. The Stakeholder Group on Extremely Low Frequency EMF, set up by the U.K. Government, has issued two reports, one in April 2007 and one in June 2010, describing options for reducing public exposure to EMF. The U.K. Government responded to the first report in 2009, agreeing to some of the proposals, including a proposed voluntary code to optimally phase 132 kilovolt overhead lines to reduce public exposure to EMF where it is cost effective to do so. In February 2011, the U.K. Government and the Energy Networks Association agreed to voluntary codes of practice under which new high voltage lines will be designed and operated using optimal phasing to reduce EMF unless doing so would be unreasonable, and defining the circumstances under which utilities will need to provide evidence of compliance with EMF exposure limits adopted by the U.K. Government. The U.K. Government is currently considering the second report which concentrates on EMF exposure from distribution systems. PPL and its subsidiaries believe research on EMF and health issues should continue and are taking steps to reduce EMFs, where practical, in the design of new transmission and distribution facilities. PPL and its subsidiaries are unable to predict what effect, if any, the EMF issue might have on their operations and facilities either in the U.S. or the U.K., and the associated cost, or what, if any, liabilities they might incur related to the EMF issue.

Environmental Matters - WPD *(PPL)*

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

The U.K. Government has requested that utilities undertake projects to alleviate the impact of flooding on the U.K. utility infrastructure, including major electricity substations. WPD has agreed with the Ofgem to spend $44 million on flood prevention, which will be recovered through rates during the ten-year period commencing April 2010. WPD is currently liaising on site-specific proposals with local offices of a U.K. Government agency.

The U.K.'s 2008 Climate Change Act imposes a duty on certain companies, including WPD, to report on climate change adaptation. The first information request was received by WPD in March 2010 and submissions for all four distribution network operators were made in June 2011. In October 2011, the U.K. Government confirmed that the reports submitted by WPD fulfill the obligations imposed by Climate Change Act. WPD has worked with other U.K. electricity network operators to undertake research with the internationally recognized U.K. Met Office (the national weather service) and to report using common agreed methodology.

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

Other

Nuclear Insurance *(PPL and PPL Energy Supply)*

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

Under the property and replacement power insurance programs, PPL Susquehanna could be assessed retroactive premiums in the event of the insurers' adverse loss experience. At December 31, 2011, this maximum assessment was $44 million.

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

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

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

Guarantees and Other Assurances

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

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

(PPL)

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

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The table below details guarantees provided as of December 31, 2011. The total recorded liability at December 31, 2011 and 2010 was $14 million for PPL and $11 million for LKE. Other than as noted in the descriptions for "WPD guarantee of pension and other obligations of unconsolidated entities," the probability of expected payment/performance under each of these guarantees is remote.

		Exposure at December 31, 2011 (a)	Expiration Date
PPL			
Indemnifications for sale of PPL Gas Utilities	$	300 (b)	
Indemnifications related to the WPD Midlands acquisition		(c)	
WPD indemnifications for entities in liquidation and sales of assets		287 (d)	2014 - 2018
WPD guarantee of pension and other obligations of unconsolidated entities		88 (e)	2015
Tax indemnification related to unconsolidated WPD affiliates		8 (f)	2012
PPL Energy Supply (g)			
Letters of credit issued on behalf of affiliates		21 (h)	2012 - 2014
Retrospective premiums under nuclear insurance programs		44 (i)	
Nuclear claims assessment under The Price-Anderson Act Amendments under The Energy Policy Act of 2005		235 (j)	
Indemnifications for sales of assets		338 (k)	2012 - 2025
Indemnification to operators of jointly owned facilities		6 (l)	
Guarantee of a portion of a divested unconsolidated entity's debt		22 (m)	2018
PPL Electric (n)			
Guarantee of inventory value		14 (o)	2016
LKE (n)			
Indemnification of lease termination and other divestitures		301 (p)	2021 - 2023
LG&E and KU (q)			
LG&E and KU guarantee of shortfall related to OVEC		(r)	2040

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

(b) PPL has provided indemnification to the purchaser of PPL Gas Utilities and Penn Fuel Propane, LLC for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including certain pre-closing unknown environmental liabilities relating to former manufactured gas plant properties or off-site disposal sites, if any, outside of Pennsylvania. The indemnification provisions for most representations and warranties, including tax and environmental matters, are capped at $45 million, in the aggregate, and are triggered (i) only if the individual claim exceeds $50,000, and (ii) only if, and only to the extent that, in the aggregate, total claims exceed $4.5 million. The indemnification provisions for most representations and warranties expired on September 30, 2009 without any claims having been made. Certain representations and warranties, including those having to do with transaction authorization and title, survive indefinitely, are capped at the purchase price and are not subject to the above threshold or deductible. The indemnification provision for the tax matters representations survives for the duration of the applicable statute of limitation. The indemnification provision for the environmental matters representations expired on September 30, 2011 without any claims having been made. The indemnification for covenants survives until the applicable covenant is performed and is not subject to any cap.

(c) WPD Midlands Holdings Limited (formerly Central Networks Limited) had agreed prior to the acquisition to indemnify certain former directors of a Turkish entity in which WPD Midlands Holdings Limited previously owned an interest for any liabilities that may arise as a result of an investigation by Turkish tax authorities, and PPL WEM has received a cross-indemnity from E.ON AG with respect to these indemnification obligations. Additionally, PPL subsidiaries agreed to provide indemnifications to subsidiaries of E.ON AG for certain liabilities relating to properties and assets owned by affiliates of E.ON AG that were transferred to WPD Midlands in connection with the acquisition. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and there is no expiration date in the transaction documents.

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

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

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

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

(g) Other than the letters of credit, all guarantees of PPL Energy Supply, on a consolidated basis, also apply to PPL on a consolidated basis for financial reporting purposes.

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

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

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

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

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchaser of the Long Island generation business for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including liabilities relating to certain renewable energy facilities which were previously owned by one of the PPL subsidiaries sold in the transaction but which were unrelated to the Long Island generation business. The indemnification provisions are subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of most representations and warranties. The indemnification provisions for most representations and warranties expired in the third quarter of 2011.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchasers of the Maine hydroelectric facilities for damages arising out of any breach of the representations, warranties and covenants under the respective transaction agreements and for damages arising out of certain other matters, including liabilities of the PPL Energy Supply subsidiary relating to the pre-closing ownership or operation of those hydroelectric facilities. The indemnification obligations are subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of representations and warranties. The indemnification provisions for certain representations and warranties expired in the second quarter of 2011.

Subsidiaries of PPL Energy Supply have agreed to provide indemnification to the purchasers of certain non-core generation facilities sold in March 2011 (see Note 9 for additional information) for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreements and for damages arising out of certain other matters relating to the facilities that were the subject of the transaction, including certain reduced capacity payments (if any) at one of the facilities in the event specified PJM rule changes are proposed and become effective. The indemnification provisions are subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of most representations and warranties.

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

(m) A PPL Energy Supply subsidiary owned a one-third equity interest in Safe Harbor Water Power Corporation (Safe Harbor) that was sold in March 2011. Beginning in 2008, PPL Energy Supply guaranteed one-third of any amounts payable with respect to certain senior notes issued by Safe Harbor. Under the terms of the sale agreement, PPL Energy Supply continues to guarantee the portion of Safe Harbor's debt, but received a cross-indemnity from the purchaser in the event PPL Energy Supply is required to make a payment under the guarantee. Exposure noted reflects principal only. See Note 9 for additional information on the sale of this interest.

(n) All guarantees of PPL Electric and LKE, on a consolidated basis, also apply to PPL on a consolidated basis for financial reporting purposes.

(o) PPL Electric entered into a contract with a third party logistics firm that provides inventory procurement and fulfillment services. Under the contract, the logistics firm has title to the inventory purchased for PPL Electric's use. Upon termination of the contract, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold by the logistics firm at the weighted-average cost at which the logistics firm purchased the inventory, thus protecting the logistics firm from reductions in the fair value of the inventory.

(p) LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of $200 million. Certain items such as non-excluded government fines and penalties fall outside the cumulative cap. Another guarantee with a maximum exposure of $100 million covering other indemnifications expires in 2023. Certain matters are currently under discussion among the parties, including one matter currently in arbitration and a further matter for which LKE is contesting the applicability of the indemnification requirement. The matter in arbitration may be ruled upon during early 2012, which ruling may result in increases or decreases to the liability estimate LKE has currently recorded. The ultimate outcome of both matters cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum amount limits range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. No additional material loss is anticipated by reason of such indemnification.

(q) All guarantees of LG&E and KU also apply to LKE on a consolidated basis for financial reporting purposes.

(r) As described in the "Energy Purchase Commitments" section of this footnote, pursuant to a power purchase agreement with OVEC, LG&E and KU are obligated to pay a demand charge which includes, among other charges, decommissioning costs, postretirement and post employment benefits. The demand charge is expected to cover LG&E's and KU's shares of the cost of these items over the term of the contract. However, in the event there is a shortfall in covering these costs, LG&E and KU are obligated to pay their share of the excess.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

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

16. Related Party Transactions

(PPL Energy Supply and PPL Electric)

PLR Contracts/Purchase of Accounts Receivable

In 2009, PPL EnergyPlus supplied PPL Electric's entire PLR load under power purchase contracts that expired on December 31, 2009. Under these contracts, PPL EnergyPlus provided electricity at the predetermined capped prices that PPL Electric was authorized to charge its PLR customers. These purchases totaled $1.8 billion in 2009 and included nuclear decommissioning recovery and amortization of an up-front contract payment. Additionally, beyond 2009, PPL EnergyPlus has been awarded a portion of the PLR generation supply through competitive solicitations. See Note 15 for additional information on PPL Electric's energy procurement plan for the period January 2011 through May 2013 and related competitive solicitations. PPL Electric's purchases from PPL EnergyPlus for 2011 and 2010 totaled $26 million and $320 million. The purchases are included in the Statements of Income as "Wholesale energy marketing to affiliate" by PPL Energy Supply and as "Energy purchases from affiliate" by PPL Electric.

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

PPL Electric's customers may choose an alternative supplier for their generation supply. See Note 1 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including PPL EnergyPlus.

At December 31, 2011, PPL Energy Supply had a net credit exposure of $36 million to PPL Electric from its commitment as a PLR supplier and from the sale of its accounts receivable to PPL Electric.

NUG Purchases

PPL Electric has a reciprocal contract with PPL EnergyPlus to sell electricity purchased under contracts with NUGs. PPL Electric purchases electricity from the NUGs at contractual rates and then sells the electricity at the same price to PPL EnergyPlus. These purchases were insignificant in 2011 and 2010 and were $70 million in 2009. These amounts are included in the Statements of Income as "Electric revenue to affiliate" by PPL Electric, and as "Energy purchases from affiliate" by PPL Energy Supply. Most of the NUG contracts have expired, with the final NUG contract expiring in 2014.

Wholesale Sales and Purchases *(LG&E and KU)*

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail native load. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail native load and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are reflected in the Statements of Income as "Electric revenue from affiliate" and "Energy purchases from affiliate" and are recorded at a price equal to the seller's fuel cost. Savings realized from such intercompany transactions are shared equally between the two companies. The volume of energy each company has to sell to the other is dependent on its native load needs and its available generation.

Allocations of PPL Services Costs *(PPL Energy Supply, PPL Electric and LKE)*

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

	2011	2010	2009 (a)
PPL Energy Supply	$ 189	$ 232	$ 214
PPL Electric	145	134	121
LKE	16	3 (b)	

(a) Excludes allocated costs associated with the February 2009 workforce reduction. See Note 13 for additional information.
(b) Represents costs allocated during the two months ending December 31, 2010 as LKE was acquired November 1, 2010.

Intercompany Billings by LKS *(LG&E and KU)*

LKS provides LG&E and KU with a variety of centralized administrative, management and support services. The cost of these services is directly charged to the company or, for general costs that cannot be directly attributed, charged based on predetermined allocation factors, including the following measures: number of customers, total assets, revenues, number of employees and/or other statistical information. LKS charged the amounts in the table below, which LKE management believes are reasonable, including amounts that are further distributed between capital and expense.

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
LG&E	$ 190	$ 32	$ 200	$ 180
KU	204	34	222	155

In addition, LG&E and KU provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LKS.

Intercompany Borrowings

(PPL Energy Supply)

A PPL Energy Supply subsidiary holds revolving lines of credit and demand notes from certain affiliates. A note with PPL Energy Funding had an outstanding balance at December 31, 2011 of $198 million, which is reflected in "Notes receivable from affiliates" on the Balance Sheet. The interest rate on this borrowing was equal to one-month LIBOR plus 3.50%. There were no balances outstanding at December 31, 2010. Interest earned on these revolving facilities is included in "Interest Income from Affiliates" on the Statements of Income. For 2011, interest earned on borrowings was $8 million, which was substantially attributable to borrowings by PPL Energy Funding as discussed above. For 2010, interest earned on borrowings, excluding the term notes discussed below, was $5 million. Interest rates were equal to one-month LIBOR plus 1% and one-month LIBOR plus 3.50%. For 2009, interest earned on borrowings was insignificant.

(PPL Energy Supply, LKE, LG&E and KU)

In November 2010, a PPL Energy Supply subsidiary held term notes with LG&E and KU. These notes were subsequently repaid and therefore no balances were outstanding at December 31, 2010. Interest on these notes was due monthly at interest rates between 4.24% and 7.04%. Interest on these notes is included in "Interest Income from Affiliates" for PPL Energy Supply and "Interest Expense with Affiliates" for LKE, LG&E and KU. When balances were outstanding, interest on these notes was $4 million for 2010.

(LKE)

LKE maintains a $300 million revolving line of credit with a PPL Energy Supply subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. There was no balance outstanding at December 31, 2011 or 2010. Interest on the revolving line of credit with the PPL Energy Supply subsidiary was not significant for 2011 or 2010.

After PPL's acquisition of LKE in November 2010, LKE held a note receivable from a PPL affiliate. At December 31, 2011, $15 million was outstanding compared with $61 million at December 31, 2010. The interest rate on the outstanding borrowing was 2.27% and 2.26% for 2011 and 2010. Interest income on this note was not significant in 2011 or 2010.

Prior to PPL's acquisition of LKE in November 2010, LKE had revolving credit facilities and several short-term and long-term loans with its former E.ON AG affiliates. During 2010 and 2009, LKE incurred interest expense on these debt arrangements of $131 million and $155 million, which is included in the Statements of Income as "Interest Expense with Affiliate." The consolidated debt had a weighted-average interest rate of 3.76% at December 31, 2009. Any such borrowings were repaid in 2010 prior to or at the time of the acquisition by PPL.

(LG&E)

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to $500 million at an interest rate based on a market index of commercial paper issues. At December 31, 2011 there was no balance outstanding. At December 31, 2010, $12 million was outstanding. The interest rate for the period ended December 31, 2010 was 0.25%. Interest expense incurred on the money pool agreement with LKE and/or KU was not significant for 2011, 2010 or 2009.

Prior to PPL's acquisition of LKE in November 2010, LG&E had long-term loans from its former E.ON AG affiliates. During 2010 and 2009, LG&E incurred interest expense related to these debt arrangements of $22 million and $27 million, which is included in the Statements of Income as "Interest Expense with Affiliate." The long-term intercompany debt had a weighted-average interest rate of 5.49% at December 31, 2009. Any such borrowings were repaid in 2010 prior to or at the time of the acquisition by PPL.

(KU)

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to $500 million at an interest rate based on a market index of commercial paper issues. At December 31, 2011, there was no balance outstanding. At December 31, 2010, $10 million was outstanding. The interest rate for the period ended December 31, 2010 was 0.25%. Interest expense incurred on the money pool agreement with LKE and/or LG&E was not significant for 2011, 2010 or 2009.

Prior to PPL's acquisition of LKE in November 2010, KU had long-term loans from its former E.ON AG affiliates. During 2010 and 2009, KU incurred interest expense on these debt arrangements of $62 million and $69 million, which are included in the Statements of Income as "Interest Expense with Affiliate." The long-term intercompany debt had a weighted-average interest rate of 5.50% at December 31, 2009. Any such borrowings were repaid in 2010 prior to or at the time of the acquisition by PPL.

(PPL Energy Supply)

Intercompany Derivatives

In 2010 and 2009, PPL Global, which was a subsidiary of PPL Energy Supply, entered into a combination of average rate forwards and average rate options with PPL to sell British pounds sterling. These hedging instruments had terms identical to average rate forwards and average rate options entered into by PPL with third parties to protect the translation of expected income denominated in British pounds sterling to U.S. dollars. As a result of PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, gains and losses, both realized and unrealized, on these types of hedging instruments are reflected in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income. PPL Energy Supply recorded an insignificant net gain in 2010 and a net loss of $9 million during 2009 related to average rate forwards and average rate options. Contracts outstanding at December 31, 2010 hedged a total exposure of £89 million related to the translation of expected income in 2011. The fair value of these positions was insignificant at December 31, 2010.

PPL Global was also a party to forward contracts with PPL to sell British pounds sterling to protect the value of a portion of its net investment in WPD. These hedging instruments had terms identical to forward sales contracts entered into by PPL with third parties. The total amount of the contracts outstanding at December 31, 2010 was £35 million ($62 million based on contracted rates). The fair value of these positions at December 31, 2010 was an asset of $7 million, which is included in "Current Assets - Price risk management assets" with an offsetting after-tax amount included in the foreign currency translation adjustment component of AOCI on the Balance Sheet.

As a result of PPL Energy Supply's distribution of its membership interest in PPL Global to its parent, these intercompany derivatives were removed from PPL Energy Supply's balance sheet in 2011. See Note 9 for additional information.

Trademark Royalties

A PPL subsidiary owns PPL trademarks and billed certain affiliates for their use. PPL Energy Supply was billed $40 million of license fees in 2011, 2010 and 2009. These fees are primarily included in "Other operation and maintenance" on the Statements of Income.

On December 31, 2011, this agreement was terminated.

Distribution of Interest in PPL Global to Parent

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 9 for additional information.

Intercompany Insurance *(PPL Electric)*

PPL Power Insurance Ltd. (PPL Power Insurance) is a subsidiary of PPL that provides insurance coverage to PPL and its subsidiaries for property damage, general/public liability and workers' compensation.

Due to damages resulting from several PUC-reportable storms that occurred in 2011, PPL Electric has exceeded its deductible for the 2011 policy year. Probable recoveries on insurance claims with PPL Power Insurance of $26.5 million were recorded during 2011, of which $16 million was included in "Other operation and maintenance" on the Statement of Income and the remainder was recorded in PP&E on the Balance Sheet.

Other *(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

See Note 1 for discussions regarding the intercompany tax sharing agreement and Note 7 for a discussion regarding capital transactions by PPL Energy Supply, PPL Electric, LKE, LG&E and KU. For PPL Energy Supply, PPL Electric and LKE, refer to Note 1 for discussions regarding intercompany allocations of stock-based compensation expense. For PPL Energy Supply, PPL Electric, LG&E and KU, see Note 13 for discussions regarding intercompany allocations associated with defined benefits.

17. Other Income (Expense) - net

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

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

	PPL			PPL Energy Supply			PPL Electric		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
Other Income									
Gains related to the extinguishment of notes (a)			$ 29			$ 25			
Earnings on securities in NDT funds	$ 24	$ 20	20	$ 24	$ 20	20			
Interest income	7	8	14	1	4	5	$ 1	$ 2	$ 8
AFUDC	7	5	1				7	5	1
Net hedge gains associated with the 2011 Bridge Facility (b)	55								
Gain on redemption of debt (c)	22								
Miscellaneous - Domestic	11	5	9	6	4	3		1	
Miscellaneous - International	1	1	1						
Total Other Income	127	39	74	31	28	53	8	8	9
Other Expense									
Economic foreign currency exchange contracts	(10)	(3)	9						
Charitable contributions	9	4	6	3	1		2	1	2
Cash flow hedges (d)		29							
LKE other acquisition-related costs (Note 10)		31							
WPD Midlands other acquisition-related costs (Note 10)	34								
Foreign currency loss on 2011 Bridge Facility (e)	57								
U.K. stamp duty tax	21								
Miscellaneous - Domestic	9	7	8	5	5	9	1	2	1
Miscellaneous - International	3	2	4						
Total Other Expense	123	70	27	8	6	9	3	3	3
Other Income (Expense) - net	$ 4	$ (31)	$ 47	$ 23	$ 22	$ 44	$ 5	$ 5	$ 6

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
LKE				
Other Income				
Net derivative gains (losses)			$ 19	$ 18
Interest income	$ 1			1
Equity in earnings of unconsolidated affiliate	1		3	
AFUDC				4
Life insurance			2	3
Gains on disposals of property				3
Miscellaneous	2		1	2
Total Other Income	4		25	31
Other Expense				
Charitable contributions	4	$ 1	5	5
Joint-use-asset depreciation			3	
Miscellaneous	1	1	3	3
Total Other Expense	5	2	11	8
Other Income (Expense) - net	$ (1)	$ (2)	$ 14	$ 23
LG&E				
Other Income				
Net derivative gains (losses)			$ 19	$ 18
Gains on disposals of property				3
Miscellaneous			1	1
Total Other Income			20	22
Other Expense				
Charitable contributions	$ 1		2	2
Miscellaneous	1	$ 3	1	1
Total Other Expense	2	3	3	3
Other Income (Expense) - net	$ (2)	$ (3)	$ 17	$ 19
KU				
Other Income				
Interest income				$ 1
Equity in earnings of unconsolidated affiliate	$ 1		$ 3	1
AFUDC				4
Life insurance			2	3
Miscellaneous			1	
Total Other Income	1		6	9
Other Expense				
Charitable contributions	1		1	1
Joint-use-asset depreciation			3	
Miscellaneous	1		1	2
Total Other Expense	2		5	3
Other Income (Expense) - net	$ (1)		$ 1	$ 6

(a) Represents PPL Energy Supply's $25 million gain on its tender offers to purchase up to $250 million aggregate principal amount of certain of its outstanding senior notes and PPL's additional net gain of $4 million as a result of reclassifying net gains on related cash flow hedges from AOCI into earnings.
(b) Represents a gain on foreign currency contracts that hedged the repayment of the 2011 Bridge Facility borrowing.
(c) As a result of PPL Electrics redemption of 7.125% Senior Secured Bonds due 2013, PPL recorded a gain on the accelerated amortization of the fair value adjustment to the debt recorded in connection with previously settled fair value hedges.
(d) Represents losses reclassified from AOCI into earnings associated with discontinued hedges at PPL for debt that had been planned to be issued by PPL Energy Supply. As a result of the expected net proceeds from the sale of certain non-core generation facilities, coupled with the monetization of full-requirement sales contracts, the debt issuance was no longer needed.
(e) Represents a foreign currency loss related to the repayment of the 2011 Bridge Facility borrowing.

18. Fair Value Measurements and Credit Concentration

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

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

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	December 31, 2011				December 31, 2010			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	$ 1,202	$ 1,202			$ 925	$ 925		
Short-term investments - municipal debt securities					163	163		
Restricted cash and cash equivalents (a)	209	209			66	66		
Price risk management assets:								
Energy commodities	3,423	3	$ 3,390	$ 30	2,503		$ 2,452	$ 51
Interest rate swaps	3		3		15		15	
Foreign currency exchange contracts	18		18		11		11	
Cross-currency swaps	24		20	4	44		44	
Total price risk management assets	3,468	3	3,431	34	2,573		2,522	51
NDT funds:								
Cash and cash equivalents	12	12			10	10		
Equity securities								
U.S. large-cap	292	202	90		303	207	96	
U.S. mid/small-cap	117	87	30		119	89	30	
Debt securities								
U.S. Treasury	86	86			75	75		
U.S. government sponsored agency	10		10		7		7	
Municipality	83		83		69		69	
Investment-grade corporate	38		38		33		33	
Other	2		2		1		1	
Receivables (payables), net		(3)	3		1	(1)	2	
Total NDT funds	640	384	256		618	380	238	
Auction rate securities (b)	24			24	25			25
Total assets	$ 5,543	$ 1,798	$ 3,687	$ 58	$ 4,370	$ 1,534	$ 2,760	$ 76
Liabilities								
Price risk management liabilities:								
Energy commodities	$ 2,345	$ 1	$ 2,327	$ 17	$ 1,552		$ 1,498	$ 54
Interest rate swaps	63		63		53		53	
Cross-currency swaps	2		2		9		9	
Total price risk management liabilities	$ 2,410	$ 1	$ 2,392	$ 17	$ 1,614		$ 1,560	$ 54
PPL Energy Supply								
Assets								
Cash and cash equivalents	$ 379	$ 379			$ 661	$ 661		
Restricted cash and cash equivalents (a)	145	145			26	26		
Price risk management assets:								
Energy commodities	3,423	3	$ 3,390	$ 30	2,503		$ 2,452	$ 51
Foreign currency exchange contracts					11		11	
Cross-currency swaps					44		44	
Total price risk management assets	3,423	3	3,390	30	2,558		2,507	51
NDT funds:								
Cash and cash equivalents	12	12			10	10		
Equity securities								
U.S. large-cap	292	202	90		303	207	96	
U.S. mid/small-cap	117	87	30		119	89	30	
Debt securities								
U.S. Treasury	86	86			75	75		
U.S. government sponsored agency	10		10		7		7	
Municipality	83		83		69		69	
Investment-grade corporate	38		38		33		33	
Other	2		2		1		1	
Receivables (payables), net		(3)	3		1	(1)	2	
Total NDT funds	640	384	256		618	380	238	
Auction rate securities (b)	19			19	20			20
Total assets	$ 4,606	$ 911	$ 3,646	$ 49	$ 3,883	$ 1,067	$ 2,745	$ 71
Liabilities								
Price risk management liabilities:								
Energy commodities	$ 2,345	$ 1	$ 2,327	$ 17	$ 1,541		$ 1,487	$ 54
Cross-currency swaps					9		9	
Total price risk management liabilities	$ 2,345	$ 1	$ 2,327	$ 17	$ 1,550		$ 1,496	$ 54

	December 31, 2011				December 31, 2010			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL Electric								
Assets								
Cash and cash equivalents	$ 320	$ 320			$ 204	$ 204		
Restricted cash and cash equivalents (c)	13	13			14	14		
Total assets	$ 333	$ 333			$ 218	$ 218		
LKE								
Assets								
Cash and cash equivalents	$ 59	$ 59			$ 11	$ 11		
Short-term investments - municipal debt securities					163	163		
Restricted cash and cash equivalents (c)	29	29			23	23		
Total assets	$ 88	$ 88			$ 197	$ 197		
Liabilities								
Price risk management liabilities:								
Energy commodities (d)					$ 2		$ 2	
Interest rate swaps (e)	$ 60		$ 60		34		34	
Total liabilities	$ 60		$ 60		$ 36		$ 36	
LG&E								
Assets								
Cash and cash equivalents	$ 25	$ 25			$ 2	$ 2		
Short-term investments - municipal debt securities					163	163		
Restricted cash and cash equivalents (c)	29	29			22	22		
Total assets	$ 54	$ 54			$ 187	$ 187		
Liabilities								
Price risk management liabilities:								
Energy commodities (d)					$ 2		$ 2	
Interest rate swaps (e)	$ 60		$ 60		34		34	
Total liabilities	$ 60		$ 60		$ 36		$ 36	
KU								
Assets								
Cash and cash equivalents	$ 31	$ 31			$ 3	$ 3		
Restricted cash and cash equivalents (c)					1	1		
Total assets	$ 31	$ 31			$ 4	$ 4		

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

At December 31, 2011 and 2010, KU's price risk management assets and liabilities arising from energy commodities and interest rate swaps accounted for at fair value on a recurring basis were not significant.

A reconciliation of net assets and liabilities classified as Level 3 for the years ended is as follows:

	PPL			
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Energy Commodities, net	Auction Rate Securities	Cross-Currency Swaps	Total
December 31, 2011				
Balance at beginning of period	$ (3)	$ 25		$ 22
Total realized/unrealized gains (losses)				
Included in earnings	(65)			(65)
Included in OCI (a)	(1)	(1)	$ (10)	(12)
Purchases	1			1
Sales	(3)			(3)
Settlements	20			20
Transfers into Level 3	(10)		14	4
Transfers out of Level 3	74			74
Balance at end of period	$ 13	$ 24	$ 4	$ 41
December 31, 2010				
Balance at beginning of period	$ 107	$ 25		$ 132
Total realized/unrealized gains (losses)				
Included in earnings	(137)			(137)
Included in OCI (a)	11			11
Net purchases, sales, issuances and settlements (b)	(16)			(16)
Transfers into Level 3	(15)			(15)
Transfers out of Level 3	47			47
Balance at end of period	$ (3)	$ 25		$ 22

(a) "Energy Commodities" and "Cross-Currency Swaps" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.
(b) Accounting guidance effective January 1, 2011 requires purchase, sale, issuance and settlement transactions within Level 3 to be presented on a gross basis. The transactions in 2010 are reported on a net basis.

A reconciliation of net assets and liabilities classified as Level 3 for the years ended is as follows:

	PPL Energy Supply		
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Energy Commodities, net	Auction Rate Securities	Total
December 31, 2011			
Balance at beginning of period	$ (3)	$ 20	$ 17
Total realized/unrealized gains (losses)			
Included in earnings	(65)		(65)
Included in OCI (a)	(1)	(1)	(2)
Purchases	1		1
Sales	(3)		(3)
Settlements	20		20
Transfers into Level 3	(10)		(10)
Transfers out of Level 3	74		74
Balance at end of period	$ 13	$ 19	$ 32
December 31, 2010			
Balance at beginning of period	$ 107	$ 20	$ 127
Total realized/unrealized gains (losses)			
Included in earnings	(137)		(137)
Included in OCI (a)	11		11
Net purchases, sales, issuances and settlements (b)	(16)		(16)
Transfers into Level 3	(15)		(15)
Transfers out of Level 3	47		47
Balance at end of period	$ (3)	$ 20	$ 17

(a) "Energy Commodities" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.
(b) Accounting guidance effective January 1, 2011 requires purchase, sale, issuance and settlement transactions within Level 3 to be presented on a gross basis. The transactions in 2010 are reported on a net basis.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended December 31 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Energy Commodities, net		
	Successor		Predecessor
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010
LKE			
Balance at beginning of period		$ 24	$ 75
Included in discontinued operations		(3)	3
Settlements		(21)	(54)
Balance at end of period		$	$ 24

Net gains and losses on assets and liabilities classified as Level 3 and included in earnings for the years ended were reported in the Statements of Income as follows:

	PPL and PPL Energy Supply			
	Energy Commodities, net			
	Unregulated Retail Electric and Gas	Wholesale Energy Marketing	Net Energy Trading Margins	Energy Purchases
December 31, 2011				
Total gains (losses) included in earnings	$ 32		$ (1)	$ (96)
Change in unrealized gains (losses) relating to positions still held at the reporting date	23	$ 5	1	(2)
December 31, 2010				
Total gains (losses) included in earnings	11	14		(162)
Change in unrealized gains (losses) relating to positions still held at the reporting date	4	6		(119)

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

Price Risk Management Assets/Liabilities - Energy Commodities

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

When unobservable inputs are significant to the fair value measurement, a contract is classified as Level 3. Additionally, Level 2 and Level 3 fair value measurements include adjustments for credit risk based on PPL's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). PPL's credit department assesses all reasonably available market information and probabilities of default used to calculate the credit adjustment. PPL assumes that observable market prices include sufficient adjustments for liquidity and modeling risks, but for Level 3 fair value measurements, PPL also assesses the need for additional adjustments for liquidity or modeling risks. The contracts classified as Level 3 represent contracts for which delivery is at a location where pricing is unobservable or the delivery dates are beyond the dates for which independent prices are available. To measure the fair value of these contracts, PPL uses internally developed models that project forward prices. The models use proxy locations, historical settlement prices and extrapolation of observable forward curves.

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

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

To manage their interest rate risk, PPL and its subsidiaries generally use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage their foreign currency exchange risk, PPL and its subsidiaries generally use foreign currency exchange contracts such as forwards and options, as well as cross-currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts. PPL and its subsidiaries use an income approach to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP and Euro), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, PPL and its subsidiaries cannot practicably obtain market information to value credit risk and therefore rely on their own models. These models use projected probabilities of default based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3. Certain cross-currency contracts were executed in 2011 and upon remeasurement of their fair value were transferred to Level 3 due to the significance of the credit adjustment driven by the long dated nature of the contracts.

(PPL and PPL Energy Supply)

NDT Funds

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

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

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

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

The debt securities held by the NDT funds at December 31, 2011 have a weighted-average coupon of 4.40% and a weighted-average maturity of 8.46 years.

Auction Rate Securities

PPL's and PPL Energy Supply's auction rate securities include Federal Family Education Loan Program guaranteed student loan revenue bonds, as well as various municipal bond issues. At December 31, 2011, contractual maturities for these auction rate securities were a weighted average of approximately 24 years. PPL and PPL Energy Supply do not have significant exposure to realize losses on these securities; however, auction rate securities are classified as Level 3 because failed auctions limit the amount of observable market data that is available for measuring the fair value of these securities.

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

Nonrecurring Fair Value Measurements

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

	Carrying Amount (a)	Fair Value Measurements Using Level 2	Level 3	Loss (b)
Sulfur dioxide emission allowances (c):				
September 30, 2011	$ 1			$ 1
March 31, 2011	1			1
December 31, 2010	2		$ 1	1
September 30, 2010	6		2	4
June 30, 2010	11		3	8
March 31, 2010	13		10	3
December 31, 2009	20		13	7
March 31, 2009	45		15	30
RECs (c):				
September 30, 2011	1			1
June 30, 2011	2	$ 1		1
March 31, 2011	3			3
Certain non-core generation facilities:				
September 30, 2010	473	381		96
Long Island generation business:				
December 31, 2009	132	128		5
September 30, 2009	137	133		5
June 30, 2009	189	138		52

(a) Represents carrying value before fair value measurement.
(b) Losses on sulfur dioxide emission allowances and RECs were recorded in the Supply segment and included in "Other operation and maintenance" on the Statements of Income. Losses on certain non-core generation facilities and the Long Island generation business were recorded in the Supply segment and included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income.
(c) Current and long-term sulfur dioxide emission allowances and RECs are included in "Other intangibles" in their respective areas on the Balance Sheets.

Sulfur Dioxide Emission Allowances

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

RECs

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

Certain Non-Core Generation Facilities

Certain non-core generation facilities met the held for sale criteria at September 30, 2010. As a result, net assets held for sale were written down to their estimated fair value less cost to sell. The fair value in the table above excludes $4 million of estimated costs to sell and was based on the negotiated sales price (achieved through an active auction process). See Note 9 for additional information on the completed sale.

Long Island Generation Business

The Long Island generation business met the held for sale criteria at June 30, 2009. As a result, net assets held for sale were written down to their estimated fair value less cost to sell. The fair value in the table above excludes $1 million of estimated costs to sell and was based on the negotiated sales price (achieved through an active auction process). See Note 9 for additional information on the completed sale.

Financial Instruments Not Recorded at Fair Value *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

The carrying amounts of contract adjustment payments related to the 2010 Purchase Contract component of the 2010 Equity Units, the 2011 Purchase Contract component of the 2011 Equity Units, and long-term debt on the Balance Sheets and their estimated fair values are set forth below. The fair values of these instruments were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates. The effect of third-party credit enhancements is not included in the fair value measurement.

	December 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
PPL				
Contract adjustment payments (a)	$ 198	$ 198	$ 146	$ 148
Long-term debt	17,993	19,392	12,663	12,868
PPL Energy Supply				
Long-term debt	3,024	3,397	5,589	5,919
PPL Electric				
Long-term debt	1,718	2,012	1,472	1,578
LKE				
Long-term debt	4,073	4,306	3,825	3,607
LG&E				
Long-term debt	1,112	1,164	1,112	1,069
KU				
Long-term debt	1,842	2,000	1,841	1,728

(a) Included in "Other current liabilities" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

The carrying value of short-term debt (including notes between affiliates), when outstanding, represents or approximates fair value due to the variable interest rates associated with the financial instruments. The carrying value of held-to-maturity, short-term investments approximates fair value due to the liquid nature and short-term duration of these instruments.

Credit Concentration Associated with Financial Instruments

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL and its subsidiaries enter into contracts with many entities for the purchase and sale of energy. Many of these contracts qualify for NPNS and as such, the fair value of these contracts is not reflected in the financial statements. However, the fair value of these contracts is considered when committing to new business from a credit perspective. See Note 19 for information on credit policies used by PPL and its subsidiaries to manage credit risk, including master netting arrangements and collateral requirements.

(PPL)

At December 31, 2011, PPL had credit exposure of $3.0 billion from energy trading partners, excluding the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, PPL's credit exposure was reduced to $866 million. One of the counterparties accounted for 11% of the exposure, and the next highest counterparty accounted for 6% of the exposure. Ten counterparties accounted for $457 million, or 53%, of the net exposure. These counterparties had an investment grade credit rating from S&P or Moody's. The foregoing excludes a long-term supply contract with SMGT due to SMGT's filing for bankruptcy protection during the fourth quarter of 2011. The outstanding accounts receivable associated with SMGT at December 31, 2011 was $14 million, of which $11 million has been reserved. See Note 15 for more information.

(PPL Energy Supply)

At December 31, 2011, PPL Energy Supply had credit exposure of $3.0 billion from energy trading partners, excluding exposure from related parties and the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, this credit exposure was reduced to $863 million. One of the counterparties accounted for 11% of the exposure, and the next highest counterparty accounted for 6% of the exposure. Ten counterparties accounted for $457 million, or 53%, of the net exposure. These counterparties had an investment grade credit rating from S&P or Moody's. The foregoing excludes a long-term supply contract with SMGT due to SMGT's filing for bankruptcy protection during the fourth quarter of 2011. The outstanding accounts receivable associated with SMGT at December 31, 2011 was $14 million, of which $11 million has been reserved. See Note 15 for more information.

(PPL Electric)

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

(LKE, LG&E and KU)

At December 31, 2011, LKE's, LG&E's and KU's credit exposure was not significant.

19. Derivative Instruments and Hedging Activities

Risk Management Objectives

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL has a risk management policy approved by the Board of Directors to manage market risk and counterparty credit risk. The RMC, comprised of senior management and chaired by the Chief Risk Officer, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, VaR analyses, portfolio stress tests, gross margin at risk analyses, sensitivity analyses and daily portfolio reporting, including open positions, determinations of fair value and other risk management metrics. During the second quarter of 2011, the RMC formally approved the inclusion of the risk programs for LKE (acquired in November 2010) under the risk management policy. WPD Midlands (acquired in April 2011) adhered to the applicable risk management programs, including interest rate and foreign currency exchange programs, from the date of acquisition.

Market Risk

Market risk is the potential loss PPL and its subsidiaries may incur as a result of price changes associated with a particular financial or commodity instrument. PPL and its subsidiaries utilize forward contracts, futures contracts, options, swaps and structured deals, such as tolling agreements, as part of risk management strategies, to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, volumes of full-requirement sales contracts, basis exposure, interest rates and/or foreign currency exchange rates. All derivatives are recognized on the Balance Sheets at their fair value, unless they qualify for NPNS.

PPL is exposed to market risk from foreign currency exchange risk primarily associated with its investments in U.K. affiliates, as well as additional market risk from certain subsidiaries, as discussed below. As described in Note 9, in January 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. Therefore, effective January 2011, PPL Energy Supply is no longer subject to interest rate and foreign currency exchange risk associated with investments in U.K. affiliates.

PPL Energy Supply is exposed to market risk from:

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

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

By definition, the regulatory environments for PPL's other regulated entities, LKE (through its subsidiaries LG&E and KU) and WPD, significantly mitigate market risk. LG&E's and KU's rates are set to permit the recovery of prudently incurred costs, including certain mechanisms for fuel, gas supply and environmental expenses. These mechanisms generally provide for timely recovery of market price and volumetric fluctuations associated with these expenses. LG&E and KU primarily utilized forward financial transactions to manage price risk associated with expected economic generation capacity in excess of expected load requirements. WPD does not have supply risks as it is only in the distribution business.

LG&E also utilizes over-the-counter interest rate swaps to limit exposure to market fluctuations on interest expense. WPD utilizes over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from foreign currency exchange rates.

Credit Risk

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

PPL is exposed to credit risk from interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

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

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

LG&E is exposed to credit risk from interest rate derivatives with financial institutions.

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

PPL and its subsidiaries have credit policies to manage their credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request the additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade or their exposures exceed an established credit limit. See Note 18 for credit concentration associated with financial instruments.

Master Netting Arrangements

PPL and its subsidiaries have elected not to offset net derivative positions against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL's and PPL Energy Supply's obligation to return counterparty cash collateral under master netting arrangements was $147 million and $338 million at December 31, 2011 and December 31, 2010.

PPL Electric, LKE, LG&E and KU had no obligation to return cash collateral under master netting arrangements at December 31, 2011 and December 31, 2010.

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

PPL, LKE and LG&E had posted cash collateral under master netting arrangements of $29 million at December 31, 2011 and $19 million at December 31, 2010.

Commodity Price Risk (Non-trading)

(PPL and PPL Energy Supply)

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

PPL and PPL Energy Supply enter into financial and physical derivative contracts, including forwards, futures, swaps and options, to hedge the price risk associated with electricity, gas, oil and other commodities. Certain contracts qualify for

NPNS or are non-derivatives and are therefore not reflected in the financial statements until delivery. PPL and PPL Energy Supply segregate their remaining non-trading activities into two categories: cash flow hedge activity and economic activity. In addition, the monetization of certain full-requirement sales contracts in 2010 impacted both the cash flow hedge and economic activity, as discussed below.

Monetization of Certain Full-Requirement Sales Contracts

In July 2010, in order to raise additional cash for the LKE acquisition, PPL Energy Supply monetized certain full-requirement sales contracts that resulted in cash proceeds of $249 million and triggered certain accounting:

- A portion of these sales contracts had previously been accounted for as NPNS and received accrual accounting treatment. PPL Energy Supply could no longer assert that it was probable that any contracts with these counterparties would result in physical delivery. Therefore, the fair value of the NPNS contracts of $160 million was recorded on the Balance Sheet in "Price risk management assets," with a corresponding gain of $144 million recorded to "Wholesale energy marketing - Realized" on the Statement of Income, and $16 million recorded to "Wholesale energy marketing - Unrealized economic activity," related to full-requirement sales contracts that had not been monetized.

- The related purchases to supply these sales contracts were accounted for as cash flow hedges, with the effective portion of the change in fair value being recorded in AOCI and the ineffective portion recorded in "Energy purchases - Unrealized economic activity." The corresponding cash flow hedges were dedesignated and all amounts previously recorded in AOCI were reclassified to earnings. This resulted in a pre-tax reclassification of $(173) million of losses from AOCI into "Energy purchases - Unrealized economic activity" on the Statement of Income. An additional charge of $(39) million was also recorded in "Wholesale energy marketing - Unrealized economic activity" on the Statement of Income to reflect the fair value of the sales contracts previously accounted for as economic activity.

- The net result of these transactions, excluding the full-requirement sales contracts that have not been monetized, was a loss of $(68) million, or $(40) million, after tax.

The proceeds of $249 million from these monetizations are reflected in the Statement of Cash Flows as a component of "Net cash provided by operating activities."

Cash Flow Hedges

Many derivative contracts have qualified for hedge accounting so that the effective portion of a derivative's gain or loss is deferred in AOCI and reclassified into earnings when the forecasted transaction occurs. The cash flow hedges that existed at December 31, 2011 range in maturity through 2016. At December 31, 2011, the accumulated net unrecognized after-tax gains (losses) that are expected to be reclassified into earnings during the next 12 months were $394 million for PPL and PPL Energy Supply. Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedge transaction is probable of not occurring. For 2011, such reclassifications were insignificant. For 2010 and 2009, such reclassifications were after-tax gains (losses) of $(89) million and $9 million. The amounts recorded in 2010 were primarily due to the monetization of certain full-requirement sales contracts, for which the associated hedges are no longer required, as discussed above.

For 2011, 2010 and 2009, hedge ineffectiveness associated with energy derivatives was, after-tax, a loss of $(22) million, a loss of $(30) million and a gain of $41 million.

In addition, when cash flow hedge positions fail hedge effectiveness testing, hedge accounting is not permitted in the quarter in which this occurs and, accordingly, the entire change in fair value for the periods that failed is recorded to the Statement of Income. Certain power and gas cash flow hedge positions failed effectiveness testing during 2008 and the first quarter of 2009. However, these positions were not dedesignated as hedges, as prospective regression analysis demonstrated that these hedges were expected to be highly effective over their term. During 2009, fewer power and gas cash flow hedges failed hedge effectiveness testing; therefore, a portion of the previously recognized unrealized gains recorded in 2008 associated with these hedges were reversed. For 2009, after-tax gains (losses) of $(215) million were recognized in earnings as a result of these reversals. During the first quarter of 2010, after-tax gains (losses) of $(82) million were recognized in earnings as a result of these reversals continuing. Effective April 1, 2010, clarifying accounting guidance was issued that precludes the reversal of previously recognized gains/losses resulting from hedge failures. By the end of the first quarter of 2010, all previously recorded hedge ineffectiveness gains resulting from hedge failures were reversed; thus, the new accounting guidance did not have a significant impact at adoption on April 1, 2010.

Economic Activity

Certain derivative contracts economically hedge the price and volumetric risk associated with electricity, gas, oil and other commodities but do not receive hedge accounting treatment. These derivatives hedge a portion of the economic value of PPL and PPL Energy Supply's competitive generation assets and unregulated full-requirement and retail contracts, which are subject to changes in fair value due to market price volatility and volume expectations. Additionally, economic activity includes the ineffective portion of qualifying cash flow hedges (see "Cash Flow Hedges" above). The derivative contracts in this category that existed at December 31, 2011 range in maturity through 2019.

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

Unrealized activity associated with monetizing certain full-requirement sales contracts was also included in economic activity during 2011.

The net fair value of economic positions at December 31, 2011 and December 31, 2010 was a net (asset) liability of $63 million and $389 million for PPL Energy Supply. The unrealized gains (losses) for economic activity are as follows.

	2011	2010	2009
Operating Revenues			
Unregulated retail electric and gas	$ 31	$ 1	$ 6
Wholesale energy marketing	1,407	(805)	(229)
Operating Expenses			
Fuel	6	29	49
Energy purchases	(1,123)	286	(155)

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

(PPL, LKE, LG&E and KU)

LG&E and KU primarily utilized forward financial transactions to manage price risk associated with expected economic generation capacity in excess of expected load requirements. Hedge accounting treatment was not elected for these transactions; therefore, realized and unrealized gains and losses are recorded in the Statements of Income.

The net fair value of economic positions for LKE, LG&E and KU at December 31, 2010 were not significant. There are no economic positions at December 31, 2011. Unrealized gains (losses) for economic activity for LKE, LG&E and KU in 2011, 2010 and 2009 were not significant.

(PPL and PPL Energy Supply)

Commodity Price Risk (Trading)

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

Commodity Volumetric Activity

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

Sales of Baseload Generation

PPL Energy Supply has a formal hedging program for its competitive baseload generation fleet, which includes 7,252 MW of nuclear, coal and hydroelectric generating capacity. The objective of this program is to provide a reasonable level of near-term cash flow and earnings certainty while preserving upside potential of power price increases over the medium term. PPL Energy Supply sells its expected generation output on a forward basis using both derivative and non-derivative instruments. Both are included in the following tables.

The following table presents the expected sales, in GWh, from competitive baseload generation and tolling arrangements that are included in the baseload portfolio based on current forecasted assumptions for 2012-2014. These expected sales could be impacted by several factors, including plant availability.

2012	2013	2014
53,737	53,136	53,502

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

			Fuel Purchases (c)	
Year	Derivative Sales (a)	Total Power Sales (b)	Coal	Nuclear
2012	85%	93%	98%	100%
2013	63%	71%	89%	100%
2014 (d)	4%	10%	62%	100%

(a) Excludes non-derivative contracts and contracts that qualify for NPNS. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.
(b) Amount represents derivative (including contracts that qualify for NPNS) and non-derivative contracts. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option. Percentages are based on fixed-price contracts only.
(c) Coal and nuclear contracts receive accrual accounting treatment, as they are not derivative contracts. Percentages are based on both fixed- and variable-priced contracts.
(d) Volumes for derivative sales contracts that deliver in future periods total 1,541 GWh and 7.2 Bcf.

In addition to the fuel purchases above, PPL Energy Supply attempts to economically hedge the fuel price risk that is within its fuel-related and coal transportation contracts, which are tied to changes in crude oil or diesel prices. PPL Energy Supply has also entered into contracts to financially hedge the physical sale of oil. The following table presents the net volumes (in thousands of barrels) of derivative (sales)/purchase contracts used in support of these strategies at December 31, 2011.

	2012	2013	2014
Oil Swaps	591	540	240

Optimization of Intermediate and Peaking Generation

In addition to its competitive baseload generation activities, PPL Energy Supply attempts to optimize the overall value of its competitive intermediate and peaking fleet, which includes 3,256 MW of gas and oil-fired generation. The following table presents the net volumes of derivative (sales)/purchase contracts used in support of this strategy at December 31, 2011.

	Units	2012	2013	2014 (a)
Power Sales	GWh	(2,860)	(1,224)	(408)
Fuel Purchases (b)	Bcf	27.1	8.1	2.5

(a) Volumes for derivative contracts used in support of these strategies that deliver in future periods are insignificant.
(b) Included in these volumes are non-options and exercised option contracts that converted to non-option derivative contracts. Volumes associated with option contracts are not significant.

Marketing Activities

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

	Units	2012	2013	2014
Energy sales contracts (a)	GWh	(16,235)	(6,524)	(3,681)
Related energy supply contracts (a)				
Energy purchases	GWh	10,658	1,359	136
Volumetric hedges (b)	GWh	254	128	93
Generation supply	GWh	5,389	4,462	3,259
Retail gas sales contracts	Bcf	(13.5)	(2.6)	(0.7)
Retail gas purchase contracts	Bcf	13.2	2.5	0.7

(a) Includes NPNS and contracts that are not derivatives, which receive accrual accounting.
(b) PPL Energy Supply uses power and gas options, swaps and futures to hedge the volumetric risk associated with full-requirement sales contracts since the demand for power varies hourly. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.

Proprietary Trading Activity

At December 31, 2011, PPL Energy Supply's proprietary trading positions, excluding FTR, basis and capacity contract activity that is included in the tables below, were not significant.

Other Energy-Related Positions

FTRs and Other Basis Positions

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

	Units	2012	2013	2014
FTRs	GWh	16,562		
Power Basis Positions (a)	GWh	(18,035)	(8,343)	(2,628)
Gas Basis Positions (a)	Bcf	11.0	(5.2)	(0.9)

(a) Net volumes that deliver in future periods are (677) GWh and (5.1) Bcf.

Capacity Positions

PPL Energy Supply buys and sells capacity related to the sales of its generation and the supply of its full-requirement sales contracts. These contracts qualify for NPNS and receive accrual accounting. PPL Energy Supply also sells and purchases capacity for proprietary trading purposes. These contracts are marked to fair value through earnings. The following table presents the net volumes of derivative capacity (sales)/purchase contracts at December 31, 2011.

	Units	2012	2013	2014 (a)
Capacity	MW-months	(7,797)	(3,108)	(2,578)

(a) Volumes that deliver in future periods are 989 MW-months.

Interest Rate Risk

(PPL, PPL Energy Supply, LKE and LG&E)

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

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

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. PPL and PPL Energy Supply enter into financial interest rate swap contracts that qualify as cash flow hedges to hedge floating interest rate risk associated with both existing and anticipated debt issuances. For PPL, outstanding interest rate swap contracts ranged in maturity through 2022 and had a notional value of $150 million at December 31, 2011. No contracts were outstanding for PPL Energy Supply at December 31, 2011.

Through PPL, PPL WEM holds a notional position in cross-currency interest rate swaps totaling $960 million that mature through 2021 to hedge the interest payments and principal of the U.S. dollar-denominated senior notes issued by PPL WEM in April 2011. Additionally, PPL WW holds a notional position in cross-currency interest rate swaps totaling $302 million that mature through December 2028 to hedge the interest payments and principal of its U.S. dollar-denominated senior notes. In 2010, these PPL WW swaps were part of PPL Energy Supply's business. As a result of the distribution of PPL Energy Supply's membership interest in PPL Global to PPL Energy Funding effective January 2011, these swaps are no longer part of PPL Energy Supply's business.

For 2011, hedge ineffectiveness associated with interest rate derivatives resulted in a net after-tax gain (loss) of $(9) million for PPL, which included a gain (loss) of $(4) million attributable to certain interest rate swaps that failed hedge effectiveness testing during the second quarter of 2011. For 2010, hedge ineffectiveness associated with these derivatives resulted in a net after-tax gain (loss) of $(9) million for PPL and was insignificant for PPL Energy Supply. For 2009, hedge ineffectiveness associated with these derivatives was insignificant for PPL and PPL Energy Supply.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is probable of not occurring. PPL had no such reclassifications for 2011. As a result of the expected net proceeds from the anticipated sale of certain non-core generation facilities, coupled with the monetization of certain full-requirement sales contracts, debt that had been planned to be issued by PPL Energy Supply in 2010 was no longer needed. As a result, hedge accounting associated with interest rate swaps entered into by PPL in anticipation of a debt issuance by PPL Energy Supply was discontinued. PPL reclassified into earnings a net after-tax gain (loss) of $(19) million in 2010 and an insignificant amount in 2009. PPL Energy Supply had no such reclassifications in 2011, 2010 and 2009.

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

Fair Value Hedges

(PPL and PPL Energy Supply)

PPL and PPL Energy Supply are exposed to changes in the fair value of their debt portfolios. To manage this risk, PPL and PPL Energy Supply may enter into financial contracts to hedge fluctuations in the fair value of existing debt issuances due to changes in benchmark interest rates. At December 31, 2011, PPL held contracts that range in maturity through 2047 and had a notional value of $99 million. PPL Energy Supply did not hold any such contracts at December 31, 2011. PPL and PPL Energy Supply did not recognize gains or losses resulting from the ineffective portion of fair value hedges or from a portion of the hedging instrument being excluded from the assessment of hedge effectiveness for 2011, 2010 and 2009.

(PPL)

In 2011, PPL Electric redeemed $400 million of 7.125% Senior Secured Bonds due 2013. As a result of this redemption, PPL recorded a gain (loss) of $22 million, or $14 million after tax, for 2011 in "Other Income (Expense) - net" on the

Statement of Income as a result of accelerated amortization of the fair value adjustments to the debt in connection with previously settled fair value hedges. Additionally, PPL recognized insignificant amounts from hedges of debt that no longer qualified as fair value hedges for 2010 and 2009.

(PPL Energy Supply)

PPL Energy Supply did not recognize any gains or losses resulting from hedges of debt issuances that no longer qualified as fair value hedges for 2011, 2010 and 2009.

Economic Activity *(PPL, LKE and LG&E)*

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including a terminated swap contract, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income when the hedged transaction occurs. At December 31, 2011, LG&E held contracts with aggregate notional amounts of $179 million that range in maturity through 2033. The fair value of these contracts were recorded as liabilities of $60 million and $34 million at December 31, 2011 and 2010, with equal offsetting amounts recorded as regulatory assets.

Prior to the third quarter of 2010, LG&E Predecessor accounted for these contracts as cash flow hedges and reclassified amounts previously recorded in AOCI to earnings in the same period during which the forecasted transaction affected earnings.

Foreign Currency Risk

(PPL and PPL Energy Supply)

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. In addition, PPL and its subsidiaries are exposed to foreign currency risk associated with firm commitments in currencies other than the applicable functional currency.

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

Cash Flow Hedges

PPL may enter into foreign currency derivatives associated with foreign currency-denominated debt and the exchange rate associated with firm commitments (including those for the purchase of equipment) denominated in foreign currencies; however, at December 31, 2011, there were no existing contracts of this nature. Amounts previously settled and recorded in AOCI are reclassified as the hedged interest payments are made and as the related equipment is depreciated. Insignificant amounts are expected to be reclassified into earnings during the next 12 months.

During 2011, 2010 and 2009, no cash flow hedges were discontinued because it was probable that the original forecasted transaction would not occur by the end of the originally specified time periods.

Fair Value Hedges

PPL enters into foreign currency forward contracts to hedge the exchange rate risk associated with firm commitments denominated in foreign currencies; however, at December 31, 2011, there were no existing contracts of this nature and no gains or losses recorded for 2011, 2010 and 2009 related to hedge ineffectiveness, or from a portion of the hedging instrument being excluded from the assessment of hedge effectiveness, or from hedges of firm commitments that no longer qualified as fair value hedges.

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. In 2010 and 2009, these contracts were included in PPL Energy Supply's business. As a result of the distribution of PPL Energy Supply's membership interest in PPL Global to PPL Energy Funding, effective January 2011, these contracts are no longer included in PPL Energy Supply's business.

The contracts outstanding at December 31, 2011 had an aggregate notional amount of £92 million (approximately $150 million based on contracted rates). The settlement dates of these contracts range from January 2012 through September 2012. At December 31, 2011 and 2010, the fair value of these positions was a net asset of $7 million. For 2011, PPL recognized an insignificant amount of activity in the foreign currency translation adjustment component of AOCI. For 2010 and 2009, PPL and PPL Energy Supply recognized insignificant amounts in the foreign currency translation adjustment component of AOCI. At December 31, 2011, PPL had $19 million of accumulated net investment hedge after-tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI. At December 31, 2010, PPL and PPL Energy Supply had $15 million of accumulated net investment hedge after-tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

Economic Activity

(PPL)

In anticipation of the repayment of a portion of the GBP-denominated borrowings under the 2011 Bridge Facility with U.S. dollar proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of U.S. dollar-denominated senior notes, as discussed in Note 7, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. When these trades were settled in April 2011, PPL recorded $55 million of pre-tax, net gains (losses) in "Other Income (Expense) - net" on the Statements of Income.

(PPL and PPL Energy Supply)

PPL and PPL Energy Supply may enter into foreign currency contracts as an economic hedge of anticipated earnings denominated in British pounds sterling. In 2010 and 2009, these contracts were included in PPL Energy Supply's business. As a result of the distribution of PPL Energy Supply's membership interest in PPL Global to PPL Energy Funding, effective January 2011, these contracts are no longer included in PPL Energy Supply's business. At December 31, 2011, the total exposure hedged by PPL was £288 million and the fair value of these positions was a net asset of $11 million. These contracts had termination dates ranging from January 2012 to November 2012. For PPL and PPL Energy Supply, the net fair value of similar hedging instruments outstanding at December 31, 2010 was insignificant. PPL records gains (losses) on these contracts, both realized and unrealized, in "Other Income (Expense) - net" on the Statements of Income. PPL Energy Supply records gains (losses) on these contracts, both realized and unrealized, in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income. For 2011, PPL recorded gains (losses) of $10 million. For 2010, the amounts for PPL and PPL Energy Supply were insignificant. For 2009, PPL and PPL Energy Supply recorded gains (losses) of $(9) million.

Accounting and Reporting

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless they qualify for NPNS. NPNS contracts for PPL and PPL Energy Supply include full-requirement sales contracts, other physical sales contracts and certain retail energy and physical capacity contracts, and for PPL Electric include full-requirement purchase contracts and other physical purchase contracts. Changes in the derivatives' fair value are recognized currently in earnings unless specific hedge accounting criteria are met, except for the changes in fair value of LG&E's interest rate swaps, which beginning in the third quarter of 2010, have been recognized as regulatory assets. See Note 6 for amounts recorded in regulatory assets at December 31, 2011 and December 31, 2010.

See Note 1 for additional information on accounting policies related to derivative instruments.

(PPL)

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

	December 31, 2011				December 31, 2010			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management Assets/Liabilities (b):								
Interest rate swaps	$ 3	$ 3		$ 5	$ 11	$ 19		$ 2
Cross-currency swaps		2			7	9		
Foreign currency exchange contracts	7		$ 11		7		$ 4	
Commodity contracts	872	3	1,655	1,557	878	19	1,011	1,095
Total current	882	8	1,666	1,562	903	47	1,015	1,097
Noncurrent:								
Price Risk Management Assets/Liabilities (b):								
Interest rate swaps				55	4			32
Cross-currency swaps	24				37			
Commodity contracts	42	2	854	783	169	7	445	431
Total noncurrent	66	2	854	838	210	7	445	463
Total derivatives	$ 948	$ 10	$ 2,520	$ 2,400	$ 1,113	$ 54	$ 1,460	$ 1,560

(a) $237 million and $326 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at December 31, 2011 and 2010.
(b) Represents the location on the Balance Sheet.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $527 million, $695 million and $602 million at December 31, 2011, 2010 and 2009.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Related Item
2011				
Interest rate swaps	Fixed rate debt	Interest expense	$ 2	$ 25
		Other Income - net		22
2010				
Interest rate swaps	Fixed rate debt	Interest expense	$ 48	$ (6)
2009				
Interest rate swaps	Fixed rate debt	Interest expense	$ 12	$ 29
		Other Income - net		7

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
2011				
Cash Flow Hedges:				
Interest rate swaps	$ (55)	Interest expense	$ (13)	$ (13)
Cross-currency swaps	(35)	Interest expense	5	
		Other income (expense) - net	29	
Commodity contracts	431	Wholesale energy marketing	835	(39)
		Fuel	1	
		Depreciation	2	
		Energy purchases	(243)	1
Total	$ 341		$ 616	$ (51)
Net Investment Hedges:				
Foreign exchange contracts	$ 6			

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
2010				
Cash Flow Hedges:				
Interest rate swaps	$ (145)	Interest expense	$ (4)	$ (17)
		Other income (expense) - net	(30)	
Cross-currency swaps	25	Interest expense	2	
		Other income (expense) - net	16	
Commodity contracts	487	Wholesale energy marketing	680	(201)
		Fuel	2	
		Depreciation	2	
		Energy purchases	(458)	3
Total	$ 367		$ 210	$ (215)
Net Investment Hedges:				
Foreign exchange contracts	$ 5			
2009				
Cash Flow Hedges:				
Interest rate swaps	$ 64	Interest expense	$ (2)	
		Other income (expense) - net	1	
Cross-currency swaps	(45)	Interest expense	2	
		Other income (expense) - net	(20)	
Commodity contracts	829	Wholesale energy marketing	358	$ (296)
		Fuel	(20)	2
		Depreciation	1	
		Energy purchases	(544)	(7)
		Other O&M	1	
Total	$ 848		$ (223)	$ (301)
Net Investment Hedges:				
Foreign exchange contracts	$ (9)			

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	2011	2010	2009
Foreign exchange contracts	Other income (expense) - net	$ 65	$ 3	$ (9)
Interest rate swaps	Interest expense	(8)		
Commodity contracts	Utility	(1)	(2)	
	Unregulated retail electric and gas	39	11	13
	Wholesale energy marketing	1,606	(70)	588
	Net energy trading margins (a)	(6)	1	
	Fuel	(1)	12	12
	Energy purchases	(1,493)	(405)	(808)
	Total	$ 201	$ (450)	$ (204)

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2011	2010	2009
Interest rate swaps	Regulatory assets - noncurrent	$ (26)	$ (11)	

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

(PPL Energy Supply)

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

	December 31, 2011				December 31, 2010			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management Assets/Liabilities (b):								
Cross-currency swaps					$ 7	$ 9		
Foreign currency exchange contracts					7		$ 4	
Commodity contracts	$ 872	$ 3	$ 1,655	$ 1,557	878	19	1,011	$ 1,084
Total current	872	3	1,655	1,557	892	28	1,015	1,084

	December 31, 2011				December 31, 2010			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Noncurrent:								
Price Risk Management Assets/Liabilities (b):								
Cross-currency swaps					37			
Commodity contracts	42	2	854	783	169	7	445	431
Total noncurrent	42	2	854	783	206	7	445	431
Total derivatives	$ 914	$ 5	$ 2,509	$ 2,340	$ 1,098	$ 35	$ 1,460	$ 1,515

(a) $237 million and $326 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at December 31, 2011 and 2010.
(b) Represents the location on the Balance Sheet.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $605 million, $733 million and $573 million at December 31, 2011, 2010 and 2009. The December 31, 2011 AOCI balance reflects the effect of PPL Energy Supply's distribution of its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 9 for additional information.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Recognized in Income on Related Item
2011				
Interest rate swaps	Fixed rate debt	Interest expense		$ 2
2010				
Interest rate swaps	Fixed rate debt	Interest expense		2
2009				
Interest rate swaps	Fixed rate debt	Interest expense	$ 1	

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
2011				
Cash Flow Hedges:				
Commodity contracts	$ 431	Wholesale energy marketing	$ 835	$ (39)
		Fuel	1	
		Depreciation	2	
		Energy purchases	(243)	1
Total	$ 431		$ 595	$ (38)
2010				
Cash Flow Hedges:				
Interest rate swaps		Discontinued operations (net of income taxes)		$ (3)
Cross-currency swaps	$ 25	Discontinued operations (net of income taxes)	$ 18	
Commodity contracts	487	Wholesale energy marketing	680	(201)
		Fuel	2	
		Depreciation	2	
		Energy purchases	(458)	3
Total	$ 512		$ 244	$ (201)
Net Investment Hedges:				
Foreign exchange contracts	$ 5			

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
2009				
Cash Flow Hedges:				
Cross-currency swaps	$ (45)	Discontinued operations (net of income taxes)	$ (18)	
Commodity contracts	829	Wholesale energy marketing	358	$ (296)
		Fuel	(20)	2
		Depreciation	1	
		Energy purchases	(544)	(7)
		Other O&M	1	
Total	$ 784		$ (222)	$ (301)
Net Investment Hedges:				
Foreign exchange contracts	$ (9)			

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	2011	2010	2009
Foreign exchange contracts	Discontinued Operations (net of income taxes)		$ 3	$ (9)
Commodity contracts	Unregulated retail electric and gas	$ 39	11	13
	Wholesale energy marketing	1,606	(70)	588
	Net energy trading margins (a)	(6)	1	
	Fuel	(1)	12	12
	Energy purchases	(1,493)	(405)	(808)
	Total	$ 145	$ (448)	$ (204)

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

(LKE and LG&E)

There were no derivatives designated as hedging instruments as of December 31, 2011 and December 31, 2010. The following table presents the fair value and location of derivative instruments not designated as hedging instruments recorded on the Balance Sheets:

	December 31, 2011		December 31, 2010	
	Derivatives not designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities
Current:				
Other Current Liabilities Assets/Liabilities (a):				
Interest rate swaps		$ 5		$ 2
Commodity contracts				2
Total current		5		4
Noncurrent:				
Price Risk Management Assets/Liabilities (a):				
Interest rate swaps		55		32
Total noncurrent		55		32
Total derivatives		$ 60		$ 36

(a) Represents the location on the Balance Sheet.

The following tables present the pre-tax effect of derivative instruments recognized in income or regulatory assets for the periods ended December 31, 2011, 2010 and 2009, for the Successor and Predecessor.

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Successor Year Ended December 31, 2011	Successor Two Months Ended December 31, 2010	Predecessor Ten Months Ended October 31, 2010	Predecessor Year Ended December 31, 2009
Interest rate swaps	Interest expense	$ (8)	$ (1)	$ (7)	$ 1
Commodity contracts	Operating revenues - retail and wholesale	(1)	(2)	3	9
	Total	$ (9)	$ (3)	$ (4)	$ 10

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	December 31, 2011	December 31, 2010
Interest rate swaps	Regulatory assets	$ (26)	$ (43)

(KU)

There were no derivatives designated as hedging instruments as of December 31, 2011 and December 31, 2010. There were no after-tax balances of accumulated net gains (losses) in AOCI at December 31, 2011 and 2010. The gains and losses recognized in income on derivatives associated with commodity contracts were not significant for the periods ended December 31, 2011, 2010, and 2009.

Credit Risk-Related Contingent Features *(PPL, PPL Energy Supply, LKE and LG&E)*

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

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

At December 31, 2011, the effect of a decrease in credit ratings below investment grade on derivative contracts that contain credit contingent features and were in a net liability position is summarized as follows:

	PPL	PPL Energy Supply	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent provisions	$ 156	$ 118	$ 39	$ 39
Aggregate fair value of collateral posted on these derivative instruments	38	9	29	29
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	183	173	10	10

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

20. Goodwill and Other Intangible Assets

Goodwill

(PPL and PPL Energy Supply)

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

	Kentucky Regulated		International Regulated		Supply		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
PPL								
Balance at beginning of period (a)	$ 662		$ 679	$ 715	$ 420	$ 91	$ 1,761	$ 806
Goodwill recognized during the period (b)		$ 662	2,391			334	2,391	996
Allocation to discontinued operations (c)						(5)		(5)
Effect of foreign currency exchange rates			(38)	(36)			(38)	(36)
Balance at end of period (a)	$ 662	$ 662	$ 3,032	$ 679	$ 420	$ 420	$ 4,114	$ 1,761

	International Regulated		Supply		Total	
	2011	2010	2011	2010	2011	2010
PPL Energy Supply						
Balance at beginning of period (a)	$ 679	$ 715	$ 86	$ 91	$ 765	$ 806
Derecognition (d)	(679)				(679)	
Allocation to discontinued operations (c)				(5)		(5)
Effect of foreign currency exchange rates		(36)				(36)
Balance at end of period (a)	$	$ 679	$ 86	$ 86	$ 86	$ 765

(a) There were no accumulated impairment losses related to goodwill.
(b) Activity in 2011 recognized as a result of the acquisition of WPD Midlands. Activity in 2010 recognized as a result of the acquisition of LKE. A portion of the goodwill related to the acquisition of LKE was allocated to the Supply segment. See Note 10 for additional information.
(c) Represents goodwill allocated to certain non-core generation facilities that were held for sale in 2010 and sold in 2011.
(d) Represents the amount of goodwill derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 9 for additional information on the distribution. Subsequent to the distribution, PPL Energy Supply operates in a single reportable segment and reporting unit.

(LKE, LG&E and KU)

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

	LKE	LG&E	KU
Balance at December 31, 2009 and October 31, 2010, Predecessor (a)	$ 837		
Dispositions (b)	(837)		
Purchase accounting adjustments (c)	996	$ 389	$ 607
Balance at December 31, 2010 and 2011, Successor (a)	$ 996	$ 389	$ 607

(a) The opening balances included $1.5 billion of impairment losses related to goodwill recorded in 2009. There were no accumulated impairment losses related to goodwill at December 31, 2010 or 2011.
(b) Predecessor goodwill was eliminated in purchase accounting at November 1, 2010.
(c) Recognized as a result of the November 1, 2010 acquisition by PPL. For LG&E and KU, the allocation of goodwill was based on the net asset values of the respective companies. See Note 10 for additional information.

(LKE)

For the 2009 annual impairment test, the estimated fair values of LG&E and KU were based on a combination of the income approach, which estimates the fair value of the reporting unit based on discounted future cash flows and the market approach, which estimates the fair value of the reporting unit based on market comparables. The discounted cash flows for LG&E and KU were based on discrete financial forecasts developed by management for planning purposes and consistent with those given to E.ON AG, LKE's former parent company. Cash flows beyond the discrete forecasts were estimated using a terminal-value calculation, which incorporated historical and forecasted financial trends for each of LG&E and KU and considered long-term earnings growth rates for publicly-traded peer companies. The level 3 income-approach valuations included a cash flow discount rate of 6.3% and a terminal-value growth rate of 1.1%. In addition, subsequent to 2009 but prior to the issuance of the 2009 financial statements, discussions were held with interested parties for the possible sale of LKE, including the regulated utilities. Data from this process was used for evaluating the carrying value of goodwill at December 31, 2009.

Based on information represented by bids received from interested parties, including PPL, LKE completed a goodwill impairment analysis at December 31, 2009. As a result of the impairment analysis described above, LKE recorded a goodwill impairment charge of $1.5 billion in 2009. The primary factors contributing to the goodwill impairment charge in 2009 were the significant economic downturn, which caused a decline in the volume of projected sales of electricity to commercial customers and an increase in the implied discount rate due to higher risk premiums. In addition, a lower control premium was assumed, based on observable market data.

Other Intangibles

(PPL)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2011		December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Contracts (a) (b)	$ 611	$ 155	$ 597	$ 49
Land and transmission rights (c)	263	110	256	110
Emission allowances/RECs (d) (e) (f)	20		37	
Licenses and other (g)	265	35	242	30
Total subject to amortization	1,159	300	1,132	189
Not subject to amortization due to indefinite life:				
Land and transmission rights	16		16	
Easements (h)	199		77	
Total not subject to amortization due to indefinite life	215		93	
Total	$ 1,374	$ 300	$ 1,225	$ 189

(a) Gross carrying amount for 2010 includes $394 million, which represents the fair value of contracts with terms favorable to market recognized as a result of the 2010 acquisition of LKE. The weighted average amortization period of these contracts was five years at the acquisition date. An offsetting regulatory liability was recorded related to these contracts, which is being amortized over the same weighted-average period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.

(b) Gross carrying amount for 2011 includes $10 million, which represents the fair value of customer contracts with terms favorable to market recognized as a result of the 2011 acquisition of WPD Midlands. The weighted-average amortization period of these contracts was ten years at the acquisition date. See Note 10 for additional information.

(c) Gross carrying amount for 2010 includes $14 million, which represents the fair value of land and transmission rights recognized as a result of the 2010 acquisition of LKE. The weighted-average amortization period of these rights was 14 years at the acquisition date. An offsetting regulatory liability was recorded related to these rights, which is being amortized over the same weighted-average period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.

(d) These emission allowances/RECs are expensed when consumed or sold. Consumption expense was $16 million, $45 million, and $32 million in 2011, 2010 and 2009. Consumption expense is expected to be insignificant in future periods.

(e) Gross carrying amount for 2010 includes the fair value of emission allowances recognized as a result of the 2010 acquisition of LKE. An offsetting regulatory liability was recorded related to these emission allowances, which is being amortized as the emission allowances are consumed, eliminating any income statement impact. See Note 6 for additional information. The carrying amounts of these emission allowances were $5 million and $16 million as of December 31, 2011 and 2010. Consumption related to these emission allowances was $11 million and $2 million for 2011 and 2010.

(f) During 2011 and 2010, PPL recorded $7 million and $17 million of impairment charges. See Note 18 for additional information.

(g) "Other" includes costs for the development of licenses, the most significant of which is the COLA. Amortization of these costs begins when the related asset is placed in service. See Note 8 for additional information on the COLA.

(h) Gross carrying amount for 2011 includes $88 million, which represents the fair value of easements recognized as a result of the 2011 acquisition of WPD Midlands. See Note 10 for additional information.

Current intangible assets are included in "Other current assets" and long-term intangible assets are included in "Other intangibles" in their respective areas on the Balance Sheets.

Amortization expense, excluding consumption of emission allowances/RECs, was as follows:

	2011	2010	2009
Intangible assets with no regulatory offset	$ 25	$ 24	$ 22
Intangible assets with regulatory offset	87	11	
Total	$ 112	$ 35	$ 22

Amortization expense for each of the next five years, excluding consumption of emission allowances/RECs, is estimated to be:

	2012	2013	2014	2015	2016
Intangible assets with no regulatory offset	$ 24	$ 24	$ 24	$ 24	$ 22
Intangible assets with a regulatory offset	46	52	46	51	27
Total	$ 70	$ 76	$ 70	$ 75	$ 49

(PPL Energy Supply)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2011		December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Contracts	$ 203	$ 53	$ 203	$ 38
Land and transmission rights	17	13	19	16
Emission allowances/RECs (a) (b)	15		20	
Licenses and other (c)	255	30	239	29
Total subject to amortization	490	96	481	83
Not subject to amortization due to indefinite life:				
Easements (d)			77	
Total	$ 490	$ 96	$ 558	$ 83

(a) Removed from the Balance Sheets and expensed when consumed or sold. Consumption expense was $16 million, $46 million, and $32 million in 2011, 2010, and 2009. Consumption expense is expected to be insignificant in future periods.
(b) During 2011 and 2010, PPL Energy Supply recorded $7 million and $16 million of impairment charges. See Note 18 for additional information.
(c) "Other" includes costs for the development of licenses, the most significant of which is the COLA. Amortization of these costs begins when the related asset is placed in service. See Note 8 for additional information on the COLA.
(d) Easements for 2010 pertain to WPD. As a result of PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, the assets and liabilities of PPL Global, including WPD's easements at December 31, 2010 were removed from PPL Energy Supply's balance sheet in 2011. See Note 9 for additional information.

Current intangible assets are included in "Other current assets" and long-term intangible assets are presented as "Other intangibles" in their respective areas on the Balance Sheets.

Amortization expense, excluding consumption of emission allowances/RECs, was as follows:

	2011	2010	2009
Amortization expense	$ 20	$ 20	$ 19

Amortization expense for each of the next five years, excluding consumption of emission allowances/RECs, is estimated to be:

	2012	2013	2014	2015	2016
Estimated amortization expense	$ 20	$ 20	$ 20	$ 20	$ 18

(PPL Electric)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2011		December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Land and transmission rights	$ 232	$ 96	$ 222	$ 93
Licenses and other	4	1	3	1
Total subject to amortization	236	97	225	94
Not subject to amortization due to indefinite life:				
Land and transmission rights	16		16	
Total	$ 252	$ 97	$ 241	$ 94

Intangible assets are shown as "Intangibles" on the Balance Sheets.

Amortization expense was insignificant in 2011, 2010 and 2009, and is expected to be insignificant in future years.

(LKE)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2011		December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	$ 269	$ 89	$ 269	$ 9
Land and transmission rights (b)	14	1	14	
Emission allowances (c)	5		16	
OVEC power purchase agreement (d)	126	9	126	2
Total subject to amortization	$ 414	$ 99	$ 425	$ 11

(a) Gross carrying amount represents the fair value of contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which is being amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
(b) Gross carrying amount represents the fair value of land and transmission rights recognized as an intangible asset as a result of adopting PPL's accounting policies in the Successor period. Amortization expense is recovered through base rates and is expected to be insignificant for future periods.
(c) Represents the fair value of emission allowances recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these emission allowances, which is being amortized as the emission allowances are consumed, eliminating any income statement impact. Consumption related to these emission allowances was $11 million and $2 million for 2011 and 2010.
(d) Gross carrying amount represents the fair value of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. See Note 6 for additional information.

Current intangible assets and long-term intangible assets are presented as "Other intangibles" in their respective areas on the Balance Sheets.

Amortization expense for the Successor, excluding consumption of emission allowances, was as follows:

	2011	2010
Intangible assets with no regulatory offset	$ 1	
Intangible assets with regulatory offset	87	$ 11
Total	$ 88	$ 11

Amortization expense for each of the next five years, excluding consumption of emission allowances, is estimated to be:

	2012	2013	2014	2015	2016
Intangibles with regulatory offset	$ 46	$ 52	$ 46	$ 51	$ 27

(LG&E)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2011		December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Coal contracts (a)	$ 124	$ 46	$ 124	$ 6
Land and transmission rights (b)	6	1	6	
Emission allowances (c)	2		7	
OVEC power purchase agreement (d)	87	6	87	1
Total subject to amortization	$ 219	$ 53	$ 224	$ 7

(a) Gross carrying amount represents the fair value of contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which is being amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
(b) Gross carrying amount represents the fair value of land and transmission rights recognized as an intangible asset as a result of adopting PPL's accounting policies in the Successor period. Amortization expense is recovered through base rates and is expected to be insignificant for future periods.
(c) Represents the fair value of emission allowances recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these emission allowances, which is being amortized as the emission allowances are consumed, eliminating any income statement impact. Consumption related to these emission allowances was $5 million and $1 million for 2011 and 2010.
(d) Gross carrying amount represents the fair value of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. See Note 6 for additional information.

Current intangible assets and long-term intangible assets are presented as "Other intangibles" in their respective areas on the Balance Sheets.

Amortization expense for the Successor, excluding consumption of emission allowances, was as follows:

	2011	2010
Intangible assets with no regulatory offset	$ 1	
Intangible assets with regulatory offset	45	$ 7
Total	$ 46	$ 7

Amortization expense for each of the next five years, excluding consumption of emission allowances, is estimated to be:

	2012	2013	2014	2015	2016
Intangibles with regulatory offset	$ 22	$ 25	$ 23	$ 24	$ 14

(KU)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2011		December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Contracts (a)	$ 145	$ 43	$ 145	$ 3
Land and transmission rights (b)	8		8	
Emission allowances (c)	3		9	
OVEC power purchase agreement (d)	39	3	39	1
Total subject to amortization	$ 195	$ 46	$ 201	$ 4

(a) Gross carrying amount represents the fair value of contracts with terms favorable to market recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these contracts, which is being amortized over the same period as the intangible assets, eliminating any income statement impact. See Note 6 for additional information.
(b) Gross carrying amount represents the fair value of land and transmission rights recognized as an intangible asset as a result of adopting PPL's accounting policies in the Successor period. Amortization expense is recovered through base rates and is expected to be insignificant for future periods.
(c) Represents the fair value of emission allowances recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to these emission allowances, which is being amortized as the emission allowances are consumed, eliminating any income statement impact. Consumption related to these emission allowances was $6 million and $1 million for 2011 and 2010.
(d) Gross carrying amount represents the fair value of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. See Note 6 for additional information.

Current intangible assets and long-term intangible assets are presented as "Other intangibles" in their respective areas on the Balance Sheets.

Amortization expense for the Successor, excluding consumption of emission allowances, was as follows:

	2011	2010
Intangible assets with regulatory offset	$ 42	$ 4

Amortization expense for each of the next five years, excluding consumption of emission allowances, is estimated to be:

	2012	2013	2014	2015	2016
Intangibles with regulatory offset	$ 24	$ 27	$ 23	$ 27	$ 13

21. Asset Retirement Obligations

(PPL)

WPD has recorded conditional AROs required by U.K. law related to treated wood poles, gas-filled switchgear and fluid-filled cables.

(PPL and PPL Energy Supply)

PPL Energy Supply has recorded liabilities in the financial statements to reflect various legal obligations associated with the retirement of long-lived assets, the most significant of which relates to the decommissioning of the Susquehanna plant. The accrued nuclear decommissioning obligation was $292 million and $270 million at December 31, 2011 and 2010, and is included in "Asset retirement obligations" on the Balance Sheets. The fair value of investments that are legally restricted for the decommissioning of the Susquehanna nuclear plant was $640 million and $618 million at December 31, 2011 and 2010, and is included in "Nuclear plant decommissioning trust funds" on the Balance Sheets. See Notes 18 and 23 for additional information on the nuclear decommissioning trust funds. Other AROs recorded relate to various environmental requirements for coal piles, ash basins and other waste basin retirements.

PPL Energy Supply has recorded several conditional AROs, the most significant of which related to the removal and disposal of asbestos-containing material. In addition to the AROs that were recorded for asbestos-containing material, PPL Energy Supply identified other asbestos-related obligations, but were unable to reasonably estimate their fair values. PPL Energy Supply management was unable to reasonably estimate a settlement date or range of settlement dates for the remediation of all of the asbestos-containing material at certain of the generation plants. If economic events or other circumstances change that enable PPL Energy Supply to reasonably estimate the fair value of these retirement obligations, they will be recorded at that time.

PPL Energy Supply also identified legal retirement obligations associated with the retirement of a reservoir that could not be reasonably estimated due to an indeterminable settlement date.

(PPL and PPL Electric)

PPL Electric has identified legal retirement obligations for the retirement of certain transmission assets that could not be reasonably estimated due to indeterminable settlement dates. These assets are located on rights-of-way that allow the grantor to require PPL Electric to relocate or remove the assets. Since this option is at the discretion of the grantor of the right-of-way, PPL Electric is unable to determine when these events may occur.

(PPL, LKE, LG&E and KU)

LG&E's and KU's AROs are primarily related to the final retirement of assets associated with generating units. LG&E also has AROs related to natural gas mains and wells. LG&E's and KU's transmission and distribution lines largely operate under perpetual property easement agreements which do not generally require restoration upon removal of the property. Therefore, no material AROs are recorded for transmission and distribution assets. As described in Notes 1 and 6, the accretion and depreciation expense recorded by LG&E and KU is offset with a regulatory credit on the income statement, such that there is no earnings impact.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

The changes in the carrying amounts of AROs were:

	PPL		PPL Energy Supply	
	2011	**2010**	**2011**	**2010**
ARO at beginning of period	$ 448	$ 426	$ 345	$ 426
Accretion expense	33	32	26	31
Obligations assumed in acquisition of LKE		103		
Obligations assumed in acquisition of WPD Midlands (a)	15			
Derecognition (b)			(5)	
Obligations incurred	14	4	11	4
Changes in estimated cash flow or settlement date	5	(100)	(1)	(100)
Obligations settled	(18)	(17)	(17)	(16)
ARO at end of period	$ 497	$ 448	$ 359	$ 345

	LKE	LG&E	KU
ARO at December 31, 2009, Predecessor	$ 65	$ 31	$ 34
Accretion expense	4	2	2
Changes in estimated cash flow or settlement date	54	30	24
Obligations settled	(1)	(1)	
ARO at October 31, 2010, Predecessor	122	62	60
Purchase accounting	(19)	(13)	(6)
ARO at December 31, 2010, Successor	103	49	54
Accretion expense	6	3	3
Obligations incurred	3	2	1
Changes in estimated cash flow or settlement date	7	4	3
Obligations settled	(1)	(1)	
ARO at December 31, 2011, Successor	$ 118	$ 57	$ 61

(a) Obligations required under U.K. law related to treated wood poles, gas-filled switchgear and fluid-filled cables. See Note 10 for additional information on the acquisition.
(b) Represents AROs derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 9 for additional information on the distribution.

In the third quarter of 2010, PPL Susquehanna completed a site-specific study to update the estimated cost to dismantle and decommission each Susquehanna nuclear unit immediately following final shutdown. This estimate included decommissioning the radiological portions of the station and the cost of removal of non-radiological structures and materials. Based on this study, which used a methodology consistent with the prior site-specific study done in 2002, the decommissioning ARO liability and the associated long-lived asset were reduced by $103 million. The primary factor for this decline was the lower estimated inflation rate assumption used in the 2010 ARO calculation.

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

	December 31, 2011				
	PPL	PPL Energy Supply	LKE	LG&E	KU
Current portion (a)	$ 13	$ 10	$ 2	$ 2	
Long-term portion (b)	484	349	116	55	$ 61
Total	$ 497	$ 359	$ 118	$ 57	$ 61

	December 31, 2010				
	PPL	PPL Energy Supply	LKE	LG&E	KU
Current portion (a)	$ 13	$ 13			
Long-term portion (b)	435	332	$ 103	$ 49	$ 54
Total	$ 448	$ 345	$ 103	$ 49	$ 54

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

22. Variable Interest Entities

(PPL and PPL Energy Supply)

In December 2001, a subsidiary of PPL Energy Supply entered into a $455 million operating lease arrangement, as lessee, for the development, construction and operation of a gas-fired combined-cycle generation facility located in Lower Mt. Bethel Township, Northampton County, Pennsylvania. The owner/lessor of this generation facility, LMB Funding, LP, was created to own/lease the facility and incur the related financing costs. The initial lease term commenced on the date of commercial operation, which occurred in May 2004, and ends in December 2013. Under a residual value guarantee, if the generation facility is sold at the end of the lease term and the cash proceeds from the sale are less than the original acquisition cost, the subsidiary of PPL Energy Supply is obligated to pay up to 70.52% of the original acquisition cost. This residual value guarantee protects the other variable interest holders from losses related to their investments. LMB Funding, LP cannot extend or cancel the lease or sell the facility without the prior consent of the PPL Energy Supply subsidiary. As a result, LMB Funding, LP was determined to be a VIE and the subsidiary of PPL Energy Supply was considered the primary beneficiary that consolidates this VIE.

The lease financing, which includes $437 million of "Long-term Debt" and $18 million of "Noncontrolling interests" at December 31, 2011 and December 31, 2010, is secured by, among other things, the generation facility, the carrying amount of which is disclosed on the Balance Sheets. The debt matures at the end of the initial lease term. As a result of the consolidation, PPL Energy Supply has recorded interest expense in lieu of rent expense. For 2011, 2010 and 2009, additional depreciation on the generation facility of $16 million, $16 million and $11 million was recorded.

23. Available-for-Sale Securities

(PPL, PPL Energy Supply, LKE and LG&E)

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

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

	December 31, 2011				December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
PPL								
Short-term investments								
- municipal debt securities (a)					$ 163			$ 163
NDT funds:								
Cash and cash equivalents	$ 12			$ 12	10			10
Equity securities:								
U.S. large-cap	173	$ 119		292	180	$ 123		303
U.S. mid/small-cap	67	50		117	67	52		119
Debt securities:								
U.S. Treasury	76	10		86	71	4		75
U.S. government sponsored agency	9	1		10	6	1		7
Municipality	80	4	$ 1	83	69			69
Investment-grade corporate	35	3		38	31	2		33
Other	2			2	1			1
Receivables/payables, net					1			1
Total NDT funds	454	187	1	640	436	182		618
Auction rate securities	25		1	24	25			25
Total	$ 479	$ 187	$ 2	$ 664	$ 624	$ 182		$ 806
PPL Energy Supply								
NDT funds:								
Cash and cash equivalents	$ 12			$ 12	$ 10			$ 10
Equity securities:								
U.S. large-cap	173	$ 119		292	180	$ 123		303
U.S. mid/small-cap	67	50		117	67	52		119
Debt securities:								
U.S. Treasury	76	10		86	71	4		75
U.S. government sponsored agency	9	1		10	6	1		7
Municipality	80	4	$ 1	83	69			69
Investment-grade corporate	35	3		38	31	2		33
Other	2			2	1			1
Receivables/payables, net					1			1
Total NDT funds	454	187	1	640	436	182		618
Auction rate securities	20		1	19	20			20
Total	$ 474	$ 187	$ 2	$ 659	$ 456	$ 182		$ 638
LKE and LG&E								
Short-term investments								
- municipal debt securities (a)					$ 163			$ 163

(a) Represents tax-exempt bonds issued by Louisville/Jefferson County, Kentucky, on behalf of LG&E that were subsequently purchased by LG&E. Such bonds were remarketed to unaffiliated investors in January 2011.

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

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

	Maturity Less Than 1 Year	Maturity 1-5 Years	Maturity 5-10 Years	Maturity in Excess of 10 Years	Total
PPL					
Amortized cost	$ 14	$ 69	$ 62	$ 82	$ 227
Fair value	14	72	67	90	243
PPL Energy Supply					
Amortized cost	$ 14	$ 69	$ 62	$ 77	$ 222
Fair value	14	72	67	85	238

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

	2011	2010	2009
PPL			
Proceeds from sales of NDT securities (a)	$ 156	$ 114	$ 201
Other proceeds from sales	163		154
Gross realized gains (b)	28	13	27
Gross realized losses (b)	16	5	20
PPL Energy Supply			
Proceeds from sales of NDT securities (a)	$ 156	$ 114	$ 201
Other proceeds from sales			154
Gross realized gains (b)	28	13	27
Gross realized losses (b)	16	5	20

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

Short-term Investments

(PPL, LKE and LG&E)

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

(PPL and PPL Energy Supply)

In December 2008, the PEDFA issued $150 million aggregate principal amount of Exempt Facilities Revenue Bonds, Series 2008A and 2008B due 2038 (Series 2008 Bonds) on behalf of PPL Energy Supply. PPL Investment Corp. acted as the initial purchaser of the Series 2008 Bonds upon issuance. In April 2009, PPL Investment Corp. received $150 million for its investment in the Series 2008 Bonds when they were refunded by the PEDFA. No realized or unrealized gains (losses) were recorded on these securities, as the difference between carrying value and fair value was insignificant.

NDT Funds

Beginning in January 1999 and ending in December 2009, in accordance with the PUC Final Order, decommissioning costs were recovered from PPL Electric's customers through the CTC over the 11-year life of the CTC rather than the remaining life of the Susquehanna nuclear plant. The recovery included a return on unamortized decommissioning costs. Under the power supply agreements between PPL Electric and PPL EnergyPlus, these revenues were passed on to PPL EnergyPlus. Similarly, these revenues were passed on to PPL Susquehanna under a power supply agreement between PPL EnergyPlus and PPL Susquehanna.

Amounts collected from PPL Electric's customers for decommissioning, less applicable taxes, were deposited in external trust funds for investment and can only be used for future decommissioning costs. To the extent that the actual costs for decommissioning exceed the amounts in the nuclear decommissioning trust funds, PPL Susquehanna would be obligated to fund 90% of the shortfall.

When the fair value of a security is less than amortized cost, PPL and PPL Energy Supply must make certain assertions to avoid recording an other-than-temporary impairment that requires a current period charge to earnings. The NRC requires that nuclear decommissioning trusts be managed by independent investment managers, with discretion to buy and sell securities in the trusts. As a result, PPL and PPL Energy Supply have been unable to demonstrate the ability to hold an impaired security until it recovers its value; therefore, unrealized losses on debt securities through March 31, 2009 and unrealized losses on equity securities for all periods presented, represented other-than-temporary impairments that required a current period charge to earnings. PPL and PPL Energy Supply recorded impairments for certain securities invested in the NDT funds of $6 million, $3 million and $18 million for 2011, 2010 and 2009. These impairments are reflected on the Statements of Income in "Other-Than-Temporary Impairments."

Effective April 1, 2009, when PPL and PPL Energy Supply intend to sell a debt security or more likely than not will be required to sell a debt security before recovery, then the other-than-temporary impairment recognized in earnings will equal the entire difference between the security's amortized cost basis and its fair value. However, if there is no intent to sell a debt security and it is not more likely than not that they will be required to sell the security before recovery, but the security has suffered a credit loss, the other-than-temporary impairment will be separated into the credit loss component, which is recognized in earnings, and the remainder of the other-than-temporary impairment, which is recorded in OCI. Temporary impairments of debt securities and unrealized gains on both debt and equity securities are recorded to OCI.

24. New Accounting Guidance Pending Adoption

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Fair Value Measurements

Effective January 1, 2012, the Registrants will prospectively adopt accounting guidance that was issued to clarify existing fair value measurement guidance as well as enhance fair value disclosures. The additional disclosures required by this guidance include quantitative information about significant unobservable inputs used for Level 3 measurements, qualitative information about the sensitivity of recurring Level 3 measurements, information about any transfers between Level 1 and 2 of the fair value hierarchy, information about when the current use of a non-financial asset is different from the highest and best use, and the hierarchy classification for assets and liabilities whose fair value is disclosed only in the notes to the financial statements.

Any fair value measurement differences resulting from the adoption of this guidance will be recognized in income in the period of adoption. The adoption of this guidance is not expected to have a significant impact on the Registrants.

Testing Goodwill for Impairment

Effective January 1, 2012, the Registrants will prospectively adopt accounting guidance which will allow an entity to elect the option to first make a qualitative evaluation about the likelihood of an impairment of goodwill. If, based on this assessment, the entity determines it is not more likely than not the fair value of a reporting unit is less than the carrying amount, the two-step goodwill impairment test is not necessary. However, the first step of the impairment test is required if an entity concludes it is more likely than not the fair value of a reporting unit is less than the carrying amount based on the qualitative assessment.

The adoption of this standard is not expected to have a significant impact on the Registrants.

Improving Disclosures about Offsetting Balance Sheet Items

Effective January 1, 2013, the Registrants will retrospectively adopt accounting guidance issued to enhance disclosures about financial instruments and derivative instruments that either (1) offset on the balance sheet or (2) are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the balance sheet.

Upon adoption, the enhanced disclosure requirements are not expected to have a significant impact on the Registrants.

25 . Subsequent Events

***(** PPL and PPL Energy Supply)*

In February 2012 PPL announced that its indirect wholly owned subsidiary, PPL Generation, had entered into a definitive agreement (Acquisition Agreement) to acquire from AES Ironwood, Inc. , a subsidiary of The AES Corporation, all of the equity interests of AES Ironwood, L.L.C. and AES Prescott, L.L.C., which together own and operate the 705 MW (winter rating) AES Ironwood combined-cycle natural-gas-fired power plant (Ironwood Facility) located in Lebanon, Pennsylvania. The Ironwood Facility began operation in 2001 and, since July 1, 2008, PPL EnergyPlus has supplied natural gas for the operation of the Ironwood Facility in return for receiving its full electricity output pursuant to a tolling agreement that expires in 2021.

The Acquisition Agreement provides for the sale of 100% of the issued and outstanding membership interests (collectively, the "Interests") of each of AES Ironwood, L.L.C. and AES Prescott, L.L.C. (collectively, the "Acquired Companies") to PPL Generation. The consideration payable by PPL Generation in respect of the acquisition is $87 million in cash, which includes approximately $4.8 million of net working capital of the Acquired Companies expected to be received at closing, plus the assumption at closing, through consolidation as a result of acquiring the Interests, of approximately $217 million of net outstanding project indebtedness of AES Ironwood, L.L.C. The outstanding project indebtedness is represented by $308.5 million aggregate principal amount of AES Ironwood, L.L.C. 8.857% senior secured bonds due 2025, the net amount of which expected to be outstanding at closing is approximately $226 million, plus $8 million of debt service reserve loans, less approximately $17 million of restricted cash reserves. The cash purchase price is subject to adjustment based on the amounts by which the actual closing date net working capital and net project indebtedness vary from expected balances.

AES Ironwood, Inc. and PPL Generation have each made customary representations, warranties and covenants in the Acquisition Agreement. The transaction is subject to customary closing conditions, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, receipt of required regulatory approvals, including approval by the Federal Energy Regulatory Commission under section 203 of the Federal Power Act, and either a reaffirmation of the current ratings of Standard & Poor's Rating Group and Moody's Investors Services, Inc. on the outstanding project indebtedness or consent of the holders of two-thirds of the outstanding project indebtedness.

PPL Energy Supply has agreed to guarantee PPL Generation's obligations under the Acquisition Agreement until the cash purchase price has been paid in full, including any post-closing adjustments for net working capital and project indebtedness.

SCHEDULE I - PPL CORPORATION
CONDENSED UNCONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31,
(Millions of Dollars, except share data)

	2011	2010	2009
Operating Revenues	$	$	$
Operating Expenses			
Other operation and maintenance		4	
Total Operating Expenses		4	
Operating Loss		(4)	
Other Income - net			
Equity in earnings of subsidiaries	1,562	1,038	378
Other income (expense)	(25)	(60)	3
Total	1,537	978	381
Interest Expense - net	76	80	(39)
Income Before Income Taxes	1,461	894	420
Income Tax Expense (Benefit)	(34)	(44)	13
Net Income Attributable to PPL Corporation	$ 1,495	$ 938	$ 407
Earnings Per Share of Common Stock:			
Net Income Available to PPL Corporation Common Shareowners:			
Basic	$ 2.71	$ 2.17	$ 1.08
Diluted	$ 2.70	$ 2.17	$ 1.08
Weighted-Average Shares of Common Stock Outstanding (in thousands)			
Basic	550,395	431,345	376,082
Diluted	550,952	431,569	376,406

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

SCHEDULE I - PPL CORPORATION
CONDENSED UNCONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,
(Millions of Dollars)

	2011	2010	2009
Cash Flows from Operating Activities			
Net cash provided by (used in) operating activities	$ 880	$ 713	$ 995
Cash Flows from Investing Activities			
Capital contributions to affiliated subsidiaries	(827)	(2,709)	(642)
Acquisition of LKE		(6,842)	
Return of capital from affiliated subsidiaries	549	150	100
Net cash provided by (used in) investing activities	(278)	(9,401)	(542)
Cash Flows from Financing Activities			
Issuance of equity, net of issuance costs	2,297	2,441	60
Net increase (decrease) in short-term debt with affiliates	(2,071)	6,826	5
Payment of common stock dividends	(746)	(566)	(517)
Contract adjustment payment	(72)	(13)	
Other	(10)		(1)
Net cash provided by (used in) financing activities	(602)	8,688	(453)
Net Increase (Decrease) in Cash and Cash Equivalents			
Cash and Cash Equivalents at Beginning of Period			
Cash and Cash Equivalents at End of Period	$	$	$
Supplemental Disclosures of Cash Flow Information:			
Cash Dividends Received from Affiliated Subsidiaries	$ 812	$ 507	$ 717
Non-cash transactions:			
Reduction in "Short-term debt with affiliates" and "Affiliated companies at equity"		$ 2,784	
Present value of contract adjustment payments	$ 123	157	

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

SCHEDULE I - PPL CORPORATION
CONDENSED UNCONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
(Millions of Dollars)

	2011	2010
Assets		
Current Assets		
Accounts Receivable		
Other	**$ 5**	$ 6
Affiliates	**25**	29
Prepayments	**36**	121
Deferred income taxes	**8**	11
Price risk management assets	**23**	15
Total Current Assets	**97**	182
Investments		
Affiliated companies at equity	**14,181**	13,406
Other Noncurrent Assets	**80**	32
Total Assets	**$ 14,358**	$ 13,620
Liabilities and Equity		
Current Liabilities		
Short-term debt with affiliates	**$ 1,991**	$ 4,062
Accounts payable with affiliates	**1,095**	958
Dividends	**203**	170
Price risk management liabilities	**23**	22
Other current liabilities	**98**	55
Total Current Liabilities	**3,410**	5,267
Deferred Credits and Other Noncurrent Liabilities	**120**	143
Equity		
PPL Corporation Shareowners' Common Equity		
Common stock - $0.01 par value (a)	**6**	5
Additional paid-in capital	**6,813**	4,602
Earnings reinvested	**4,797**	4,082
Accumulated other comprehensive loss	**(788)**	(479)
Total PPL Corporation Shareowners' Common Equity	**10,828**	8,210
Total Liabilities and Equity	**$ 14,358**	$ 13,620

(a) 780,000 shares authorized; 578,405 and 483,391 shares issued and outstanding at December 31, 2011 and December 31, 2010.

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

SCHEDULE I - PPL CORPORATION
NOTES TO CONDENSED UNCONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

PPL Corporation is a holding company and conducts substantially all of its business operations through its subsidiaries. Substantially all of its consolidated assets are held by such subsidiaries. Accordingly, its cash flow and its ability to meet its obligations are largely dependent upon the earnings of these subsidiaries and the distribution or other payment of such earnings to it in the form of dividends, loans or advances or repayment of loans and advances from it. These condensed financial statements and related footnotes have been prepared in accordance with Reg. §210.12-04 of Regulation S-X. These statements should be read in conjunction with the consolidated financial statements and notes thereto of PPL Corporation.

PPL Corporation indirectly or directly owns all of the ownership interests of its significant subsidiaries. PPL Corporation does not own the preferred securities of PPL Electric Utilities Corporation. PPL Corporation relies on dividends or loans from its subsidiaries to fund PPL Corporation's dividends to its common shareholders and to meet its other cash requirements.

2. Commitments and Contingencies

See Note 15 to PPL Corporation's consolidated financial statements for commitments and contingencies of its subsidiaries.

Guarantees and Other Assurances

PPL Corporation's subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts that may become due under PPL Corporation's guarantees or other assurances or to make any funds available for such payment.

PPL Corporation fully and unconditionally guarantees the payment of principal, premium and interest on all of the debt securities of PPL Capital Funding. The estimated maximum potential amount of future payments that could be required under the guarantees at December 31, 2011 was $5.2 billion. These guarantees will expire in 2067.

PPL Corporation has provided indemnification to the purchaser of PPL Gas Utilities and Penn Fuel Propane, LLC for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including certain pre-closing unknown environmental liabilities relating to former manufactured gas plant properties or off-site disposal sites, if any, outside of Pennsylvania. The estimated maximum potential amount of future payments that could be required under the indemnifications at December 31, 2011 was $300 million. The indemnification provisions for most representations and warranties, including tax and environmental matters, are capped at $45 million, in the aggregate, and are triggered (i) only if the individual claim exceeds $50,000, and (ii) only if, and only to the extent that, in the aggregate, total claims exceed $4.5 million. The indemnification provisions for most representations and warranties expired on September 30, 2009 without any claims having been made. Certain representations and warranties, including those having to do with transaction authorization and title, survive indefinitely, are capped at the purchase price and are not subject to the above threshold or deductible. The indemnification provision for the tax matters representations survives for the duration of the applicable statute of limitation. The indemnification provision for the environmental matters representations expired on September 30, 2011 without any claims having been made. The indemnification for covenants survives until the applicable covenant is performed and is not subject to any cap.

The probability of expected payment under each of the guarantees is remote.

SCHEDULE I - LG&E and KU Energy LLC
CONDENSED UNCONSOLIDATED STATEMENTS OF INCOME
(Millions of Dollars)

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Operating Revenues				
Operating Expenses				
Other operation and maintenance			$ (3)	$ (1)
Total Operating Expenses			(3)	(1)
Loss on Impairment of Goodwill				1,493
Operating Income (Loss)			3	(1,492)
Equity in Earnings of Subsidiaries	$ 267	$ 48	204	(61)
Other Income (Expense) - net			(1)	
Interest Income with Affiliate	29	5	29	31
Interest Expense	31	4		
Interest Expense with Affiliate	2	1	47	60
Income (Loss) from Continuing Operations Before Income Taxes	263	48	188	(1,582)
Income Tax Expense (Benefit)	(2)	1	(2)	(6)
Income (Loss) from Continuing Operations After Income Taxes	265	47	190	(1,576)
Income (Loss) from Discontinued Operations (net of income taxes)				39
Net Income (Loss)	265	47	190	(1,537)
Noncontrolling Interest - Loss from Discontinued Operations				5
Net Income (Loss) Attributable to Member	$ 265	$ 47	$ 190	$ (1,542)

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

SCHEDULE I - LG&E and KU Energy LLC
CONDENSED UNCONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions of Dollars)

	Successor		Predecessor	
	Year Ended December 31, 2011	Two Months Ended December 31, 2010	Ten Months Ended October 31, 2010	Year Ended December 31, 2009
Cash Flows from Operating Activities				
Net cash provided by (used in) operating activities	$ 346	$ 53	$ 156	$ 63
Cash Flows from Investing Activities				
Capital contributions to affiliated subsidiaries		(3)	(525)	(75)
Net decrease (increase) in notes receivable from affiliates	(63)	313	234	(742)
Net cash provided by (used in) investing activities	(63)	310	(291)	(817)
Cash Flows from Financing Activities				
Net increase (decrease) in debt with affiliates		(208)	243	803
Repayment of short-term borrowings		(2,103)		
Retirement of long-term debt		(400)		
Issuance of long-term debt	250	870		
Debt-issuance costs		(6)		
Contribution from member		1,565		
Distribution to member	(533)	(100)		
Payment of common stock dividends			(87)	(49)
Net cash provided by (used in) financing activities	(283)	(382)	156	754
Net Increase (Decrease) in Cash and Cash Equivalents		(19)	21	
Cash and Cash Equivalents at Beginning of Period	2	21		
Cash and Cash Equivalents at End of Period	$ 2	$ 2	$ 21	$
Supplemental disclosures of cash flow information:				
Cash Dividends Received from Affiliated Subsidiaries	$ 207	$	$ 105	$ 80

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

SCHEDULE I - LG&E and KU Energy LLC
CONDENSED UNCONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
(Millions of Dollars)

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	$ 2	$ 2
Accounts receivable from affiliates	11	61
Notes receivable from affiliates	1,520	787
Other current assets	4	
Total Current Assets	1,537	850
Investments		
Affiliated companies at equity	4,056	3,998
Other Noncurrent Assets		
Notes receivable from affiliates		670
Deferred income taxes	163	166
Other noncurrent assets	8	6
Total Other Noncurrent Assets	171	842
Total Assets	$ 5,764	$ 5,690
Liabilities and Equity		
Current Liabilities		
Accounts payable to affiliates	$ 701	$ 606
Other current liabilities	6	7
Total Current Liabilities	707	613
Long-term Debt		
Long-term debt	1,120	870
Notes payable to affiliates	196	196
Total Long-term Debt	1,316	1,066
Equity	3,741	4,011
Total Liabilities and Equity	$ 5,764	$ 5,690

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

Schedule I - LG&E and KU Energy LLC
Notes to Condensed Unconsolidated Financial Statements

1. Basis of Presentation

LG&E and KU Energy LLC (LKE) is a holding company and conducts substantially all of its business operations through its subsidiaries. Substantially all of its consolidated assets are held by such subsidiaries. Accordingly, its cash flow and its ability to meet its obligations are largely dependent upon the earnings of these subsidiaries and the distribution or other payment of such earnings to it in the form of dividends or repayment of loans and advances from the subsidiaries. These condensed financial statements and related footnotes have been prepared in accordance with Reg. §210.12-04 of Regulation S-X. These statements should be read in conjunction with the consolidated financial statements and notes thereto of LKE.

LKE indirectly or directly owns all of the ownership interests of its significant subsidiaries. LKE relies primarily on dividends from its subsidiaries to fund LKE's dividends to its member and to meet its other cash requirements.

2. Commitments and Contingencies

See Note 15 to LKE's consolidated financial statements for commitments and contingencies of its subsidiaries.

Guarantees

In connection with various divestitures, LKE has indemnified/guaranteed respective parties against certain liabilities that may arise in connection with these transactions and business activities. The terms of these indemnifications/guarantees vary, as do the expiration terms. LKE has issued direct financial guarantees to parties involved in the WKE lease termination, which occurred in July 2009. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is a guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years beginning on July 16, 2009 and a cumulative maximum exposure of $200 million. Certain items, such as non-excluded government fines and penalties, fall outside the cumulative cap. Another guarantee with a maximum exposure of $100 million covering other indemnifications expires in 2023. Certain matters are currently under discussion among the parties, including one matter currently in arbitration and a further matter for which LKE is contesting the applicability of the indemnification requirement. The matter in arbitration may be ruled upon during early 2012, which ruling may result in increases or decreases to the liability estimate LKE has currently recorded. The ultimate outcome of both matters cannot be predicted at this time. See Note 9, Discontinued Operations, for further information. Additionally, LKE has indemnified various third parties related to historical obligations for divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum amounts range from being capped at the sale price to no specified maximum; however, LKE is not aware of claims made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. No additional material loss is anticipated by reason of such indemnifications. A subsidiary of LKE has recorded liabilities for all guarantees totaling $11 million with respect to which LKE has certain guarantee obligations.

QUARTERLY FINANCIAL, COMMON STOCK PRICE AND DIVIDEND DATA (Unaudited)
PPL Corporation and Subsidiaries
(Millions of Dollars, except per share data)

	For the Quarters Ended (a)			
	March 31	June 30	Sept. 30	Dec. 31
2011				
Operating revenues	**$ 2,910**	**$ 2,489**	**$ 3,120**	**$ 4,218**
Operating income	**805**	**595**	**767**	**934**
Income from continuing operations after income taxes	**402**	**201**	**449**	**458**
Income (loss) from discontinued operations	**3**	**(1)**		
Net income	**405**	**200**	**449**	**458**
Net income attributable to PPL Corporation	**401**	**196**	**444**	**454**
Income from continuing operations after income taxes available to PPL Corporation common shareowners: (b)				
Basic EPS	**0.82**	**0.35**	**0.76**	**0.78**
Diluted EPS	**0.82**	**0.35**	**0.76**	**0.78**
Net income available to PPL Corporation common shareowners: (b)				
Basic EPS	**0.82**	**0.35**	**0.76**	**0.78**
Diluted EPS	**0.82**	**0.35**	**0.76**	**0.78**
Dividends declared per share of common stock (c)	**0.350**	**0.350**	**0.350**	**0.350**
Price per common share:				
High	**$ 26.98**	**$ 28.38**	**$ 29.61**	**$ 30.27**
Low	**24.10**	**25.23**	**25.00**	**27.00**
2010				
Operating revenues	$ 3,006	$ 1,473	$ 2,179	$ 1,863
Operating income	476	226	522	642
Income from continuing operations after income taxes	247	85	306	338
Income (loss) from discontinued operations	8	7	(53)	21
Net income	255	92	253	359
Net income attributable to PPL Corporation	250	85	248	355
Income from continuing operations after income taxes available to PPL Corporation common shareowners: (b)				
Basic EPS	0.64	0.20	0.62	0.69
Diluted EPS	0.64	0.20	0.62	0.69
Net income available to PPL Corporation common shareowners: (b)				
Basic EPS	0.66	0.22	0.51	0.73
Diluted EPS	0.66	0.22	0.51	0.73
Dividends declared per share of common stock (c)	0.350	0.350	0.350	0.350
Price per common share:				
High	$ 32.77	$ 28.80	$ 28.00	$ 28.14
Low	27.47	23.75	24.83	25.13

(a) Quarterly results can vary depending on, among other things, weather and the forward pricing of power. In addition, earnings in 2011 and 2010 were affected by special items. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.
(b) The sum of the quarterly amounts may not equal annual earnings per share due to changes in the number of common shares outstanding during the year or rounding.
(c) PPL has paid quarterly cash dividends on its common stock in every year since 1946. Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial requirements and other factors.

QUARTERLY FINANCIAL DATA (Unaudited)
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	For the Quarters Ended (a)			
	March 31	June 30	Sept. 30	Dec. 31
2011				
Operating revenues	**$ 558**	**$ 440**	**$ 455**	**$ 439**
Operating income	**103**	**82**	**69**	**94**
Net income	**56**	**40**	**32**	**61**
Net income available to PPL Corporation	**52**	**36**	**28**	**57**
2010				
Operating revenues	$ 813	$ 522	$ 571	$ 549
Operating income	87	56	79	62
Net income	42	23	40	30
Net income available to PPL Corporation	37	16	36	26

(a) PPL Electric's business is seasonal in nature, with peak sales periods generally occurring in the winter and summer months. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

The registrants' principal executive officers and principal financial officers, based on their evaluation of the registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of December 31, 2011, the registrants' disclosure controls and procedures are effective to ensure that material information relating to the registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this annual report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

PPL Corporation

PPL acquired WPD Midlands on April 1, 2011. These companies are included in PPL's 2011 financial statements as of the date of the acquisition, on a one-month lag. WPD Midlands accounted for approximately 9% of PPL's net income for the twelve months ended December 31, 2011. WPD Midlands represented 19% and 27% of PPL's total assets and net assets at December 31, 2011. The internal control over financial reporting of WPD Midlands was excluded from a formal evaluation of effectiveness of PPL's disclosure controls and procedures. This decision was based upon the significance of these companies to PPL, and the timing of integration efforts underway to transition WPD Midlands' processes, information technology systems and other components of internal control over financial reporting to the internal control structure of PPL. PPL has expanded its consolidation and disclosure controls and procedures to include the acquired companies, and PPL continues to assess the current internal control over financial reporting at WPD Midlands. Risks related to the increased account balances were partially mitigated by PPL's expanded controls and PPL's existing policy of consolidating foreign subsidiaries on a one-month lag, which provided management additional time for review and analysis of WPD Midlands' results and their incorporation into PPL's consolidated financial statements.

(b) Changes in internal control over financial reporting.

PPL Corporation

PPL's principal executive officer and principal financial officer have concluded that a recent systems migration related to the WPD Midlands acquisition created a material change to its internal control over financial reporting. Specifically, on December 1, 2011 the use of legacy information technology systems at WPD Midlands was discontinued and the related data, processes and internal controls were migrated to the systems, processes and controls currently in place at PPL WW. Due to PPL's existing policy of consolidating foreign subsidiaries on a one-month lag, the system migration will primarily impact 2012 financial reporting for PPL and will likely have limited impact on PPL's 2011 financial reporting.

Risks related to the system migration were partially mitigated by PPL's expanded internal control over financial reporting that were implemented subsequent to the acquisition and PPL's existing policy of consolidating foreign subsidiaries on a one-month lag, which provided management additional time for review and analysis of WPD Midlands' results and their incorporation into PPL's consolidated financial statements. PPL continues to assess the internal control over financial reporting at WPD subsequent to the December 1, 2011 system migration.

The aforementioned principal executive officer and principal financial officer have concluded that there were no other changes in the registrant's internal control over financial reporting during the registrant's fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

The registrants' principal executive officers and principal financial officers have concluded that there were no changes in the registrants' internal control over financial reporting during the registrants' fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrants' internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

PPL Corporation

PPL's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). PPL's internal control over financial reporting is a process designed to provide reasonable assurance to PPL's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework," our management concluded that our internal control over financial reporting was effective as of December 31, 2011. The effectiveness of our internal control over financial reporting has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report contained on page 195.

In accordance with SEC rules, management excluded WPD Midlands from its evaluation of internal control over financial reporting due to the significance of these companies to PPL's financial results and the migration of WPD Midlands' legacy information technology systems, processes and controls to those at PPL WW. WPD Midlands accounted for 9% of PPL's net income for the year ended December 31, 2011. WPD Midlands represented 19% and 27% of PPL's consolidated total assets and net assets, respectively, at December 31, 2011. As discussed above, PPL Corporation is continuing to enhance and evaluate processes, information technology systems and other components of internal control over financial reporting as part of its ongoing integration activities.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Management of PPL's non-accelerated filer companies, PPL Energy Supply, PPL Electric, LKE, LG&E and KU, are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). PPL's internal control over financial reporting is a process designed to provide reasonable assurance to PPL's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including our principal executive officers and principal financial officers, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework," our management concluded that our internal control over financial reporting was effective as of December 31, 2011. This annual report does not include an attestation report of Ernst & Young LLP, the companies' independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the companies' registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the companies to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

PPL Corporation

Additional information for this item will be set forth in the sections entitled "Nominees for Directors," "Board Committees - Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance" in PPL's 2012 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2011, and which information is incorporated herein by reference. There have been no changes to the procedures by which shareowners may recommend nominees to PPL's board of directors since the filing with the SEC of PPL's 2011 Notice of Annual Meeting and Proxy Statement. Information required by this item concerning the executive officers of PPL is set forth at the end of Part I of this report.

PPL has adopted a code of ethics entitled "Standards of Integrity" that applies to all directors, managers, trustees, officers (including the principal executive officers, principal financial officers and principal accounting officers (each, a "principal officer")), employees and agents of PPL and PPL's subsidiaries for which it has operating control (including PPL Energy Supply, PPL Electric, LKE, LG&E and KU). The "Standards of Integrity" are posted on PPL's Internet website: www.pplweb.com/about/corporate+governance . A description of any amendment to the "Standards of Integrity" (other than a technical, administrative or other non-substantive amendment) will be posted on PPL's Internet website within four business days following the date of the amendment. In addition, if a waiver constituting a material departure from a provision of the "Standards of Integrity" is granted to one of the principal officers, a description of the nature of the waiver, the name of the person to whom the waiver was granted and the date of the waiver will be posted on PPL's Internet website within four business days following the date of the waiver.

PPL also has adopted its "Guidelines for Corporate Governance," which address, among other things, director qualification standards and director and board committee responsibilities. These guidelines, and the charters of each of the committees of PPL's board of directors, are posted on PPL's Internet website: www.pplweb.com/about/corporate+governance .

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 10 is omitted as PPL Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K.

EXECUTIVE OFFICERS OF THE REGISTRANTS

Officers of the Registrants are elected annually by their Boards of Directors (or Board of Managers for PPL Energy Supply) to serve at the pleasure of the respective Boards. There are no family relationships among any of the executive officers, nor is there any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer during the past five years.

Listed below are the executive officers at December 31, 2011.

PPL Corporation

Name	Age	Positions Held During the Past Five Years	Dates
James H. Miller (a)	63	Chairman	October 2006 - present
		Chief Executive Officer	October 2006 - November 2011
		President	August 2005 - July 2011
William H. Spence (b)	54	President and Chief Executive Officer	November 2011 - present
		President-PPL Generation	June 2008 - present
		President and Chief Operating Officer	July 2011 - November 2011
		Executive Vice President and Chief Operating Officer	June 2006 - July 2011
Paul A. Farr	44	Executive Vice President and Chief Financial Officer	April 2007 - present
		Senior Vice President-Financial	January 2006 - March 2007
Robert J. Grey	61	Senior Vice President, General Counsel and Secretary	March 1996 - present
David G. DeCampli (c)	54	President-PPL Electric	April 2007 - present
		Senior Vice President-Transmission and Distribution Engineering and Operations-PPL Electric	December 2006 - April 2007
Robert D. Gabbard (c)	52	President-PPL EnergyPlus	June 2008 - present
		Senior Vice President-Trading-PPL EnergyPlus	June 2008 - June 2008
		Senior Vice President Merchant Trading Operations-Conectiv Energy	June 2005 - May 2008
Rick L. Klingensmith (c)	51	President-PPL Global	August 2004 - present
Victor A. Staffieri (c)	56	Chairman of the Board, President and Chief Executive Officer-LKE	May 2001 - present
James E. Abel	59	Senior Vice President-Finance and Treasurer	August 2010 - present
		Vice President-Finance and Treasurer	June 1999 - August 2010
J. Matt Simmons, Jr. (c)	46	Vice President-Risk Management and Chief Risk Officer	September 2009 - present
		Vice President and Controller	January 2006 - March 2010
Vincent Sorgi	40	Vice President and Controller	March 2010 - present
		Controller-Supply Accounting	June 2008 - March 2010
		Controller-PPL EnergyPlus	April 2007 - June 2008
		Financial Director-Supply-PPL Generation	April 2006 - April 2007

(a) On July 22, 2011, James H. Miller resigned as President. On November 17, 2011, he also resigned as Chief Executive Officer. Mr. Miller has announced he will be retiring, effective April 1, 2012.
(b) On July 22, 2011, William H. Spence resigned as Executive Vice President and was elected President and Chief Operating Officer. On November 17, 2011, he also resigned as Chief Operating Officer and was elected President and Chief Executive Officer.
(c) Designated an executive officer of PPL by virtue of their respective positions at a PPL subsidiary.

ITEM 11. EXECUTIVE COMPENSATION

PPL Corporation

Information for this item will be set forth in the sections entitled "Compensation of Directors," "Compensation Committee Interlocks and Insider Participation" and "Executive Compensation" in PPL's 2012 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2011, and which information is incorporated herein by reference.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 11 is omitted as PPL Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

PPL Corporation

Information for this item will be set forth in the section entitled "Stock Ownership" in PPL's 2012 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2011, and which information is incorporated herein by reference. In addition, provided below in tabular format is information as of December 31, 2011, with respect to compensation plans (including individual compensation arrangements) under which equity securities of PPL are authorized for issuance.

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights **(3)**	Weighted-average exercise price of outstanding options, warrants and rights **(3)**	Number of securities remaining available for future issuance under equity compensation plans **(4)**
Equity compensation plans approved by security holders (1)	4,559,845 - ICP 2,970,353 - ICPKE 7,530,198 - Total	$ 30.90- ICP $ 30.28- ICPKE $ 30.65- Combined	1,107,321 - ICP 7,608,727 - ICPKE 14,452,166 - DDCP 23,168,214 - Total
Equity compensation plans not approved by security holders (2)			

(1) Includes (a) the Amended and Restated Incentive Compensation Plan (ICP), under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards may be awarded to executive officers of PPL; (b) the Amended and Restated Incentive Compensation Plan for Key Employees (ICPKE), under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards may be awarded to non-executive key employees of PPL and its subsidiaries; and (c) the Directors Deferred Compensation Plan (DDCP), under which stock units may be awarded to directors of PPL. See Note 12 to the Financial Statements for additional information.

(2) All of PPL's current compensation plans under which equity securities of PPL are authorized for issuance have been approved by PPL's shareowners.

(3) Relates to common stock issuable upon the exercise of stock options awarded under the ICP and ICPKE as of December 31, 2011. In addition, as of December 31, 2011, the following other securities had been awarded and are outstanding under the ICP, ICPKE and DDCP: 45,400 shares of restricted stock, 549,805 restricted stock units and 236,714 performance units under the ICP; 24,600 shares of restricted stock, 1,420,230 restricted stock units and 161,894 performance units under the ICPKE; and 425,306 stock units under the DDCP.

(4) Based upon the following aggregate award limitations under the ICP, ICPKE and DDCP: (a) under the ICP, 15,769,431 awards (i.e., 5% of the total PPL common stock outstanding as of April 23, 1999) granted after April 23, 1999; (b) under the ICPKE, 16,573,608 awards (i.e., 5% of the total PPL common stock outstanding as of January 1, 2003) granted after April 25, 2003, reduced by outstanding awards for which common stock was not yet issued as of such date of 2,373,812 resulting in a limit of 14,199,796; and (c) under the DDCP, 15,052,856 securities. In addition, each of the ICP and ICPKE includes an annual award limitation of 2% of total PPL common stock outstanding as of January 1 of each year.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 12 is omitted as PPL Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

PPL Corporation

Information for this item will be set forth in the sections entitled "Transactions with Related Persons" and "Independence of Directors" in PPL's 2012 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2011, and is incorporated herein by reference.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 13 is omitted as PPL Energy Supply, PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

PPL Corporation

Information for this item will be set forth in the section entitled "Fees to Independent Auditor for 2011 and 2010" in PPL's 2012 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2011, and which information is incorporated herein by reference.

PPL Energy Supply, LLC

The following table presents an allocation of fees billed, including expenses, by Ernst & Young LLP (EY) to PPL for the fiscal years ended December 31, 2011 and 2010, for professional services rendered for the audit of PPL Energy Supply's annual financial statements and for fees billed for other services rendered by EY.

	2011	2010
	(in thousands)	
Audit fees (a)	$ 1,701	$ 2,581
Audit-related fees (b)	9	16
Tax fees (c)	518	375
All other fees (d)		118

(a) Includes estimated fees for audit of annual financial statements and review of financial statements included in PPL Energy Supply's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

(b) Fees for performance of specific agreed-upon procedures.

(c) Includes fees for tax advice in connection with a tax basis and earnings and profit study, a private letter ruling related to the sale of Safe Harbor, the funding of the Western Power Utilities Pension Scheme, review and consultation related to PPL's recognition of tax benefits resulting from U.S. Court decisions, consultation and analysis related to non-income tax process improvements initiated by PPL and review, consultation and analysis related to investment tax credits and related capital expenditures on certain hydro-electric plant upgrades.

(d) Fees related to access to an EY online accounting research tool and an International Financial Reporting Standards diagnostic readiness assessment.

PPL Electric Utilities Corporation

The following table presents an allocation of fees billed, including expenses, by EY to PPL for the fiscal years ended December 31, 2011 and 2010, for professional services rendered for the audit of PPL Electric's annual financial statements and for fees billed for other services rendered by EY.

	2011	2010
	(in thousands)	
Audit fees (a)	$ 1,193	$ 810
Audit-related fees (b)	45	21
Tax fees (c)	19	58
All other fees (d)		42

(a) Includes estimated fees for audit of annual financial statements and review of financial statements included in PPL Electric's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

(b) Fees for consultation on a transmission and distribution study and performance of specific agreed-upon procedures.

(c) Fees for consultation and analysis related to non-income tax process improvements initiated by PPL and review and consultation related to tax impacts resulting from U.S. Court decisions.

(d) Fees related to access to an EY online accounting research tool and an International Financial Reporting Standards diagnostic readiness assessment.

LG&E and KU Energy LLC

For the fiscal year ended 2011, EY served as LKE's independent auditor. For the fiscal year ended 2010, PricewaterhouseCoopers LLP (PwC) served as LKE's independent auditor. The following table presents an allocation of fees billed, including expenses, by EY and PwC to LKE for the fiscal years ended December 31, 2011 and 2010, for professional services rendered for the audits of LKE's annual financial statements and for fees billed for other services rendered by EY and PwC.

	Successor	Predecessor
	2011	2010
	(in thousands)	
Audit fees (a)	$ 1,528	$ 1,964
Tax fees		6
All other fees		2

(a) Includes estimated fees for audit of annual financial statements and review of financial statements included in LKE's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

Louisville Gas and Electric Company

For the fiscal year ended 2011, EY served as LG&E's independent auditor. For the fiscal year ended 2010, PwC served as LG&E's independent auditor. The following table presents an allocation of fees billed, including expenses, by EY and PwC to LG&E for the fiscal years ended December 31, 2011 and 2010, for professional services rendered for the audits of LG&E's annual financial statements and for fees billed for other services rendered by EY and PwC.

	Successor 2011	Predecessor 2010
	(in thousands)	
Audit fees (a)	$ 552	$ 871
All other fees		1

(a) Includes estimated fees for audit of annual financial statements and review of financial statements included in LG&E's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

Kentucky Utilities Company

For the fiscal year ended 2011, EY served as KU's independent auditor. For the fiscal year ended 2010, PwC served as KU's independent auditor. The following table presents an allocation of fees billed, including expenses, by EY and PwC to KU for the fiscal years ended December 31, 2011 and 2010, for professional services rendered for the audits of KU's annual financial statements and for fees billed for other services rendered by EY and PwC.

	Successor 2011	Predecessor 2010
	(in thousands)	
Audit fees (a)	$ 552	$ 811
Tax fees		6
All other fees		1

(a) Includes estimated fees for audit of annual financial statements and review of financial statements included in KU's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Approval of Fees The Audit Committee of PPL has procedures for pre-approving audit and non-audit services to be provided by the independent auditor. These procedures are designed to ensure the continued independence of the independent auditor. More specifically, the use of the independent auditor to perform either audit or non-audit services is prohibited unless specifically approved in advance by the Audit Committee of PPL. As a result of this approval process, the Audit Committee of PPL has pre-approved specific categories of services and authorization levels. All services outside of the specified categories and all amounts exceeding the authorization levels are approved by the Chair of the Audit Committee of PPL, who serves as the Committee designee to review and approve audit and non-audit related services during the year. A listing of the approved audit and non-audit services is reviewed with the full Audit Committee of PPL no later than its next meeting.

The Audit Committee of PPL approved 100% of the 2011 and 2010 services provided by EY.

The Audit Committee of PPL approved 100% of the 2010 services provided by PwC to LKE, LG&E and KU following their acquisition by PPL. Prior to the November 2010 acquisition of LKE by PPL, the Audit Committee of LKE, LG&E and KU maintained procedures for pre-approval of independent auditor services and fees substantially similar to those described above. The LKE, LG&E and KU Audit Committee approved 100% of the 2010 services provided by PwC prior to the PPL acquisition.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

(a) The following documents are filed as part of this report:

1. Financial Statements - Refer to the "Table of Contents" for an index of the financial statements included in this report.

2. Supplementary Data and Supplemental Financial Statement Schedule - included in response to Item 8.

   Schedule I - PPL Corporation Condensed Unconsolidated Financial Statements.

   Schedule I - LG&E and KU Energy LLC Condensed Unconsolidated Financial Statements.

   All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or notes thereto.

3. Exhibits

   See Exhibit Index immediately following the signature pages.

SHAREOWNER AND INVESTOR INFORMATION

Annual Meetings : The 2012 annual meeting of shareowners of PPL will be held on Wednesday, May 16, 2012, at the Zoellner Arts Center, on the campus of Lehigh University in Bethlehem, Pennsylvania, in Northampton County.

Proxy and Information Statement Material : A proxy statement and notice of PPL's annual meeting is mailed to all shareowners of record as of February 29, 2012.

PPL Annual Report : The report is published and mailed in the beginning of April to all shareowners of record. The latest annual report can be accessed at www.pplweb.com. If you have more than one account, or if there is more than one investor in your household, you may call the PPL Shareowner Information Line to request that only one annual report be delivered to your address. Please provide account numbers for all duplicate mailings.

Dividends : Subject to the declaration of dividends on PPL common stock by the PPL Board of Directors or its Executive Committee and PPL Electric preference stock by the PPL Electric Board of Directors, dividends are paid on the first business day of April, July, October and January. The 2012 record dates for dividends are expected to be March 9, June 8, September 10 and December 10.

Direct Deposit of Dividends: Shareowners may choose to have their dividend checks deposited directly into their checking or savings account.

PPL Shareowner Information Line (1-800-345-3085): Shareowners can get detailed corporate and financial information 24 hours a day using the PPL Shareowner Information Line. They can hear timely recorded messages about earnings, dividends and other company news releases; request information by fax; and request printed materials in the mail. Other PPL publications, such as the annual and quarterly reports to the Securities and Exchange Commission (Forms 10-K and 10-Q), will be mailed upon request, or write to:

Manager - PPL Investor Services
Two North Ninth Street (GENTW13)
Allentown, PA 18101

FAX: 610-774-5106
Via email: invserv@pplweb.com

PPL's Website (www.pplweb.com): Shareowners can access PPL Securities and Exchange Commission filings, corporate governance materials, news releases, stock quotes and historical performance. Visitors to our website can provide their email address and indicate their desire to receive future earnings or news releases automatically.

Shareowner Inquiries :

PPL Shareowner Services
Wells Fargo Bank, N.A.
161 North Concord Exchange
South St. Paul, MN 55075-1139

Toll Free: 1-800-345-3085
Outside U.S.: 651-453-2129
FAX: 651-450-4085
www.wellsfargo.com/shareownerservices

Online Account Access : Registered shareowners can access account information by visiting www.shareowneronline.com.

Dividend Reinvestment and Direct Stock Purchase Plan (Plan): PPL offers its existing shareowners, employees and new investors the opportunity to acquire shares of PPL common stock through its Plan. Shareowners may choose to have dividends on their PPL common stock fully or partially reinvested in PPL common stock or can receive full payment of cash dividends by check or EFT. Participants in the Plan may choose to have their common stock certificates deposited into their Plan account.

Direct Registration System: PPL participates in the Direct Registration System (DRS). Shareowners may choose to have their common stock certificates deposited into the DRS.

Listed Securities:

New York Stock Exchange

PPL Corporation:
Common Stock (Code: PPL)

Corporate Units issued 2010 (Code: PPLPRU)

Corporate Units issued 2011 (Code: PPLPRW)

PPL Capital Funding, Inc.:
2007 Series A Junior Subordinated Notes due 2067 (Code: PPL/67)

6.85% Senior Notes due 2047 (Code: PLV)

Fiscal Agents:

Stock Transfer Agent and Registrar; Dividend Reinvestment Plan Agent
Wells Fargo Bank, N.A.
Shareowner Services
161 North Concord Exchange
South St. Paul, MN 55075-1139

Toll Free: 1-800-345-3085
Outside U.S.: 651-453-2129

Dividend Disbursing Office
PPL Investor Services
Two North Ninth Street (GENTW13)
Allentown, PA 18101

FAX: 610-774-5106
Via email: invserv@pplweb.com

Or call the PPL Shareowner Information Line
Toll Free: 1-800-345-3085

1945 Mortgage Bond Trustee, Transfer and Bond Interest Paying Agent
Deutsche Bank Trust Company Americas
5022 Gate Parkway (Suite 200)
Jacksonville, FL 32256

Toll Free: 1-800-735-7777
FAX: 615-866-3887

Indenture Trustee
The Bank of New York Mellon
101 Barclay Street
New York, NY 10286

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Corporation
(Registrant)

By /s/ William H. Spence
William H. Spence -
President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ William H. Spence
William H. Spence -
President and
Chief Executive Officer
(Principal Executive Officer)

By /s/ Paul A. Farr
Paul A. Farr -
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

By /s/ Vincent Sorgi
Vincent Sorgi -
Vice President and Controller
(Principal Accounting Officer)

Directors:

Frederick M. Bernthal	Venkata Rajamannar Madabhushi
John W. Conway	James H. Miller
Steven G. Elliott	Craig A. Rogerson
Louise K. Goeser	William H. Spence
Stuart E. Graham	Natica von Althann
Stuart Heydt	Keith H. Williamson

By /s/ William H. Spence
William H. Spence, Attorney-in-fact

Date: February 28, 2012

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Energy Supply, LLC
(Registrant)

By /s/ James H. Miller
James H. Miller -
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ James H. Miller
James H. Miller -
President
(Principal Executive Officer)

By /s/ Paul A. Farr
Paul A. Farr -
Executive Vice President
(Principal Financial Officer)

By /s/ Vincent Sorgi
Vincent Sorgi -
Vice President and Controller
(Principal Accounting Officer)

Managers:

/s/ James H. Miller
James H. Miller

/s/ Paul A. Farr
Paul A. Farr

/s/ Robert J. Grey
Robert J. Grey

/s/ William H. Spence
William H. Spence

Date: February 28, 2012

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Electric Utilities Corporation
(Registrant)

By /s/ David G. DeCampli
David G. DeCampli -
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ David G. DeCampli
David G. DeCampli -
President
(Principal Executive Officer)

By /s/ Vincent Sorgi
Vincent Sorgi -
Vice President and Chief Accounting Officer
(Principal Financial and Accounting Officer)

Directors:

/s/ James H. Miller James H. Miller	/s/ William H. Spence William H. Spence
/s/ Paul A. Farr Paul A. Farr	/s/ David G. DeCampli David G. DeCampli
/s/ Robert J. Grey Robert J. Grey	/s/ Dean A. Christiansen Dean a. Christiansen

Date: February 28, 2012

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LG&E and KU Energy LLC
(Registrant)

By /s/ Victor A. Staffieri
Victor A. Staffieri -
Chairman, Chief Executive Officer and
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Victor A. Staffieri
Victor A. Staffieri -
Chairman, Chief Executive Officer and
President
(Principal Executive Officer)

By /s/ Kent W. Blake
Kent W. Blake -
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Directors:

/s/ Paul A. Farr	/s/ William H. Spence
Paul A. Farr	William H. Spence
/s/ Chris Hermann	/s/ Victor A. Staffieri
Chris Hermann	Victor A. Staffieri
/s/ John R. McCall	/s/ Paul W. Thompson
John R. McCall	Paul W. Thompson
/s/ S. Bradford Rives	
S. Bradford Rives	

Date: February 28, 2012

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Louisville Gas and Electric Company
(Registrant)

By /s/ Victor A. Staffieri
Victor A. Staffieri -
Chairman, Chief Executive Officer and
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Victor A. Staffieri
Victor A. Staffieri -
Chairman, Chief Executive Officer and
President
(Principal Executive Officer)

By /s/ Kent W. Blake
Kent W. Blake -
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Directors:

/s/ Paul A. Farr Paul A. Farr	/s/ William H. Spence William H. Spence
/s/ Chris Hermann Chris Hermann	/s/ Victor A. Staffieri Victor A. Staffieri
/s/ John R. McCall John R. McCall	/s/ Paul W. Thompson Paul W. Thompson
/s/ S. Bradford Rives S. Bradford Rives	

Date: February 28, 2012

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Kentucky Utilities Company
(Registrant)

By /s/ Victor A. Staffieri
Victor A. Staffieri -
Chairman, Chief Executive Officer and
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Victor A. Staffieri
Victor A. Staffieri -
Chairman, Chief Executive Officer and
President
(Principal Executive Officer)

By /s/ Kent W. Blake
Kent W. Blake -
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Directors:

/s/ Paul A. Farr Paul A. Farr	/s/ William H. Spence William H. Spence
/s/ Chris Hermann Chris Hermann	/s/ Victor A. Staffieri Victor A. Staffieri
/s/ John R. McCall John R. McCall	/s/ Paul W. Thompson Paul W. Thompson
/s/ S. Bradford Rives S. Bradford Rives	

Date: February 28, 2012

EXHIBIT INDEX

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits have heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [_] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

3(a)	-	Amended and Restated Articles of Incorporation of PPL Corporation, effective as of May 21, 2008 (Exhibit 3(i) to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 21, 2008)
3(b)	-	Amended and Restated Articles of Incorporation of PPL Electric Utilities Corporation, effective as of May 2, 2006 (Exhibit 3(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended March 31, 2006)
3(c)-1	-	Certificate of Formation of PPL Energy Supply, LLC, effective as of November 14, 2000 (Exhibit 3.1 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
*3(c)-2	-	Certificate of Amendment of PPL Energy Supply, LLC, effective as of November 12, 2002
3(d)	-	Amended and Restated Bylaws of PPL Corporation, effective as of May 19, 2010 (Exhibit 99.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2010)
3(e)	-	Amended and Restated Bylaws of PPL Electric Utilities Corporation, effective as of March 30, 2006 (Exhibit 3.2 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated March 30, 2006)
3(f)	-	Limited Liability Company Agreement of PPL Energy Supply, LLC, effective as of March 20, 2001 (Exhibit 3.2 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
3(g)	-	Articles of Organization of LG&E and KU Energy LLC, effective as of December 29, 2003 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173665))
3(h)	-	Amended and Restated Operating Agreement of LG&E and KU Energy LLC, effective as of November 1, 2010 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173665))
3(i)-1	-	Amended and Restated Articles of Incorporation of Louisville Gas and Electric Company, effective as of November 6, 1996 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173676))
3(i)-2	-	Articles of Amendment to Articles of Incorporation of Louisville Gas and Electric Company, effective as of April 6, 2004 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173676))
3(j)	-	Bylaws of Louisville Gas and Electric Company, effective as of December 16, 2003 (Exhibit 3(c) to Registration Statement filed on Form S-4 (File No. 333-173676))
3(k)-1	-	Amended and Restated Articles of Incorporation of Kentucky Utilities Company, effective as of December 14, 1993 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173675))
3(k)-2	-	Articles of Amendment to Articles of Incorporation of Kentucky Utilities Company, effective as of April 8, 2004 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173675))
3(l)	-	Bylaws of Kentucky Utilities Company, effective as of December 16, 2003 (Exhibit 3(c) to Registration Statement filed on Form S-4 (File No. 333-173675))
4(a)	-	Pollution Control Facilities Loan Agreement, dated as of May 1, 1973, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 5(z) to Registration Statement No. 2-60834)
4(b)-1	-	Amended and Restated Employee Stock Ownership Plan, dated January 12, 2007 (Exhibit 4(a) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)

4(b)-2	-	Amendment No. 1 to said Employee Stock Ownership Plan, dated July 2, 2007 (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2007)
4(b)-3	-	Amendment No. 2 to said Employee Stock Ownership Plan, dated December 13, 2007 (Exhibit 4(a)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2007)
4(b)-4	-	Amendment No. 3 to said Employee Stock Ownership Plan, dated August 19, 2009 (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2009)
4(b)-5	-	Amendment No. 4 to said Employee Stock Ownership Plan, dated December 2, 2009 (Exhibit 4(a)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2009)
4(b)-6	-	Amendment No. 5 to said Employee Stock Ownership Plan, dated November 17, 2010 (Exhibit 4(b)-6 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(c)	-	Trust Deed constituting £150 million 9 ¼ percent Bonds due 2020, dated November 9, 1995, between South Wales Electric plc and Bankers Trustee Company Limited (Exhibit 4(k) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
4(d)-1	-	Indenture, dated as of November 1, 1997, among PPL Corporation, PPL Capital Funding, Inc. and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 12, 1997)
4(d)-2	-	Supplemental Indenture No. 7, dated as of July 1, 2007, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated July 16, 2007)
4(e)	-	Indenture, dated as of March 16, 2001, among WPD Holdings UK, Bankers Trust Company, as Trustee, Principal Paying Agent, and Transfer Agent and Deutsche Bank Luxembourg, S.A., as Paying and Transfer Agent (Exhibit 4(g) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2009)
4(f)-1	-	Indenture, dated as of August 1, 2001, by PPL Electric Utilities Corporation and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 21, 2001)
4(f)-2	-	Supplemental Indenture No. 4, dated as of February 1, 2005, to said Indenture (Exhibit 4(g)-5 to PPL Electric Utilities Corporation Form 10-K Report (File No. 1-905) for the year ended December 31, 2004)
4(f)-3	-	Supplemental Indenture No. 5, dated as of May 1, 2005, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2005)
4(f)-4	-	Supplemental Indenture No. 6, dated as of December 1, 2005, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated December 22, 2005)
4(f)-5	-	Supplemental Indenture No. 7, dated as of August 1, 2007, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 14, 2007)
4(f)-6	-	Supplemental Indenture No. 9, dated as of October 1, 2008, to said Indenture (Exhibit 4(c) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 31, 2008)
4(f)-7	-	Supplemental Indenture No. 10, dated as of May 1, 2009, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated May 22, 2009)

4(f)-8	-	Supplemental Indenture No. 11, dated as of July 1, 2011, to said Indenture (Exhibit 4.1 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 13, 2011)
4(f)-9	-	Supplemental Indenture No. 12, dated as of July 1, 2011, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 18, 2011)
4(f)-10	-	Supplemental Indenture No. 13, dated as of August 1, 2011, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 23, 2011)
4(g)-1	-	Indenture, dated as of October 1, 2001, by PPL Energy Supply, LLC and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
4(g)- 2	-	Supplemental Indenture No. 2, dated as of August 15, 2004, to said Indenture (Exhibit 4(h)-4 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2004)
4(g)-3	-	Supplemental Indenture No. 3, dated as of October 15, 2005, to said Indenture (Exhibit 4(a) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated October 28, 2005)
4(g)-4	-	Form of Note for PPL Energy Supply, LLC's $300 million aggregate principal amount of 5.70% REset Put Securities due 2035 (REPS SM) (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated October 28, 2005)
4(g)-5	-	Supplemental Indenture No. 4, dated as of May 1, 2006, to said Indenture (Exhibit 4(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended June 30, 2006)
4(g)-6	-	Supplemental Indenture No. 6, dated as of July 1, 2006, to said Indenture (Exhibit 4(c) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended June 30, 2006)
4(g)-7	-	Supplemental Indenture No. 7, dated as of December 1, 2006, to said Indenture (Exhibit 4(f)-10 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2006)
4(g)-8	-	Supplemental Indenture No. 8, dated as of December 1, 2007, to said Indenture (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated December 20, 2007)
4(g)-9	-	Supplemental Indenture No. 9, dated as of March 1, 2008, to said Indenture (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated March 14, 2008)
4(g)-10	-	Supplemental Indenture No. 10, dated as of July 1, 2008, to said Indenture (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated July 21, 2008)
4(g)-11	-	Supplemental Indenture No. 11, dated as of December 1, 2011, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-1149) dated December 16, 2011)
4(h)-1	-	Trust Deed constituting £200 million 5.875 percent Bonds due 2027, dated March 25, 2003, between Western Power Distribution (South West) plc and J.P. Morgan Corporate Trustee Services Limited (Exhibit 4(o)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
4(h)-2	-	Supplement, dated May 27, 2003, to said Trust Deed, constituting £50 million 5.875 percent Bonds due 2027 (Exhibit 4 (o)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
4(i)-1	-	Pollution Control Facilities Loan Agreement, dated as of February 1, 2005, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 10(ff) to PPL Electric Utilities Corporation Form 10-K Report (File No. 1-905) for the year ended December 31, 2004)

4(i)-2	-	Pollution Control Facilities Loan Agreement, dated as of May 1, 2005, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 10(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2005)
4(i)-3	-	Pollution Control Facilities Loan Agreement, dated as of October 1, 2008, between Pennsylvania Economic Development Financing Authority and PPL Electric Utilities Corporation (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 31, 2008)
4(j)	-	Trust Deed constituting £105 million 1.541 percent Index-Linked Notes due 2053, dated December 1, 2006, between Western Power Distribution (South West) plc and HSBC Trustee (CI) Limited (Exhibit 4(i) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
4(k)	-	Trust Deed constituting £120 million 1.541 percent Index-Linked Notes due 2056, dated December 1, 2006, between Western Power Distribution (South West) plc and HSBC Trustee (CI) Limited (Exhibit 4(j) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
4(l)	-	Trust Deed constituting £225 million 4.80436 percent Notes due 2037, dated December 21, 2006, between Western Power Distribution (South Wales) plc and HSBC Trustee (CI) Limited (Exhibit 4(k) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
4(m)-1	-	Subordinated Indenture, dated as of March 1, 2007, between PPL Capital Funding, Inc., PPL Corporation and The Bank of New York, as Trustee (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 20, 2007)
4(m)-2	-	Supplemental Indenture No. 1, dated as of March 1, 2007, to said Subordinated Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 20, 2007)
4(m)-3	-	Supplemental Indenture No. 2, dated as of June 28, 2010, to said Subordinated Indenture (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 30, 2010)
4(m)-4	-	Supplemental Indenture No. 3, dated as of April 15, 2011, to said Subordinated Indenture (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 19, 2011).
4(n)-1	-	Series 2009A Exempt Facilities Loan Agreement, dated as of April 1, 2009, between PPL Energy Supply, LLC and Pennsylvania Economic Development Financing Authority (Exhibit 4(a) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 9, 2009)
4(n)-2	-	Series 2009B Exempt Facilities Loan Agreement, dated as of April 1, 2009, between PPL Energy Supply, LLC and Pennsylvania Economic Development Financing Authority (Exhibit 4(b) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 9, 2009)
4(n)-3	-	Series 2009C Exempt Facilities Loan Agreement, dated as of April 1, 2009, between PPL Energy Supply, LLC and Pennsylvania Economic Development Financing Authority (Exhibit 4(c) to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 9, 2009)
4(o)	-	Trust Deed constituting £200 million 5.75 percent Notes due 2040, dated March 23, 2010, between Western Power Distribution (South Wales) plc and HSBC Corporate Trustee Company (UK) Limited (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2010)
4(p)	-	Trust Deed constituting £200 million 5.75 percent Notes due 2040, dated March 23, 2010, between Western Power Distribution (South West) plc and HSBC Corporate Trustee Company (UK) Limited (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2010)
4(q)-1	-	Indenture, dated as of October 1, 2010, between Kentucky Utilities Company and The Bank of New York Mellon, as Trustee (Exhibit 4(q)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

4(q)-2	-	Supplemental Indenture No. 1, dated as of October 15, 2010, to said Indenture (Exhibit 4(q)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(q)-3	-	Supplemental Indenture No. 2, dated as of November 1, 2010, to said Indenture (Exhibit 4(q)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(r)-1	-	Indenture, dated as of October 1, 2010, between Louisville Gas and Electric Company and The Bank of New York Mellon, as Trustee (Exhibit 4(r)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(r)-2	-	Supplemental Indenture No. 1, dated as of October 15, 2010, to said Indenture (Exhibit 4(r)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(r)-3	-	Supplemental Indenture No. 2, dated as of November 1, 2010, to said Indenture (Exhibit 4(r)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(s)-1	-	Indenture, dated as of November 1, 2010, between LG&E and KU Energy LLC and The Bank of New York Mellon, as Trustee (Exhibit 4(s)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(s)-2	-	Supplemental Indenture No. 1, dated as of November 1, 2010, to said Indenture (Exhibit 4(s)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(s)-3	-	Supplemental Indenture No. 2, dated as of September 1, 2011, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 30, 2011)
4(t)-1	-	2002 Series A Carroll County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(w)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(t)-2	-	Amendment No. 1 dated as of September 1, 2010 to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(w)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(u)-1	-	2002 Series B Carroll County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(x)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(u)-2	-	Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(x)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(v)-1	-	2002 Series C Carroll County Loan Agreement, dated July 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(y)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(v)-2	-	Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(y)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(w)-1	-	2004 Series A Carroll County Loan Agreement, dated October 1, 2004 and amended and restated as of September 1, 2008, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(z)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(w)-2	-	Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(z)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

4(x)-1	-	2006 Series B Carroll County Loan Agreement, dated October 1, 2006 and amended and restated September 1, 2008, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(aa)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(x)-2	-	Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(aa)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(y)-1	-	2007 Series A Carroll County Loan Agreement, dated March 1, 2007, by and between Kentucky Utilities Company and County of Carroll, Kentucky (Exhibit 4(bb)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(y)-2	-	Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(bb)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(z)-1	-	2008 Series A Carroll County Loan Agreement, dated August 1, 2008 by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(cc)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(z)-2	-	Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(cc)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(aa)-1	-	2000 Series A Mercer County Loan Agreement, dated May 1, 2000 and amended and restated as of September 1, 2008, by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(dd)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(aa)-2	-	Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(dd)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(bb)-1	-	2002 Series A Mercer County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(ee)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(bb)-2	-	Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(ee)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(cc)-1	-	2002 Series A Muhlenberg County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Muhlenberg, Kentucky (Exhibit 4(ff)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(cc)-2	-	Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Muhlenberg, Kentucky (Exhibit 4(ff)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(dd)-1	-	2007 Series A Trimble County Loan Agreement, dated March 1, 2007, by and between Kentucky Utilities Company, and County of Trimble, Kentucky (Exhibit 4(gg)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(dd)-2	-	Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Trimble, Kentucky (Exhibit 4(gg)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

4(ee)-1	-	2000 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated May 1, 2000 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(hh)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(ee)-2	-	Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(hh)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
*4(ee)-3	-	Amendment No. 2 dated as of October 1, 2011, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky
4(ff)-1	-	2001 Series A Jefferson County Loan Agreement, dated July 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(ii)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(ff)-2	-	Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(ii)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(gg)-1	-	2001 Series A Jefferson County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(jj)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(gg)-2	-	Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(jj)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(hh)-1	-	2001 Series B Jefferson County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(kk)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(hh)-2	-	Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(kk)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(ii)-1	-	2003 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated October 1, 2003, by and between Louisville Gas and Electric Company and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(ll)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(ii)-2	-	Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(ll)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(jj)-1	-	2005 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated February 1, 2005 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(mm)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(jj)-2	-	Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(mm)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(kk)-1	-	2007 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated as of March 1, 2007 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(nn)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

4(kk)-2	-	Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(nn)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(ll)	-	2007 Series B Louisville/Jefferson County Metro Government Amended and Restated Loan Agreement, dated November 1, 2010, by and between Louisville Gas and Electric Company and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(oo) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(mm)-1	-	2000 Series A Trimble County Loan Agreement, dated August 1, 2000, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(pp)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(mm)-2	-	Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(pp)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(nn)-1	-	2001 Series A Trimble County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(qq)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(nn)-2	-	Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and the County of Trimble, Kentucky (Exhibit 4(qq)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(oo)-1	-	2001 Series B Trimble County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(rr)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(oo)-2	-	Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(rr)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(pp)-1	-	2002 Series A Trimble County Loan Agreement, dated July 1, 2002, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(ss)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(pp)-2	-	Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(ss)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(qq)-1	-	2007 Series A Trimble County Loan Agreement, dated March 1, 2007, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(tt)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(qq)-2	-	Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(tt)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
4(rr)-1	-	Indenture, dated April 21, 2011, between PPL WEM Holdings PLC, as Issuer, and The Bank of New York Mellon, as Trustee (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 21, 2011)
4(rr)-2	-	Supplemental Indenture No. 1, dated April 21, 2011, to said Indenture (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 21, 2011)

4(ss)-1	-	Trust Deed, dated April 27, 2011, by and among Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc, as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No.1-11459) dated May 17, 2011)
4(ss)-2	-	Final Terms of WPD West Midlands £800,000,000 5.75 per cent Notes due 2032 (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2011)
4(ss)-3	-	Final Terms of WPD East Midlands £600,000,000 5.25 per cent Notes due 2023 (Exhibit 1.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2011)
4(ss)-4	-	Final Terms of WPD East Midlands £100,000,000 Index Linked Notes due 2043 (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 2, 2011)
4(tt)	-	Agency Agreement, dated April 27, 2011, by and among Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc, as Issuers, and HSBC Corporate Trustee Company (UK) Limited and HSBC Bank plc (Exhibit 4.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2011)
4(uu)	-	Registration Rights Agreement, dated September 29, 2011, between LG&E and KU Energy LLC and the Initial Purchasers (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 30, 2011)
10(a)	-	Generation Supply Agreement, dated as of June 20, 2001, between PPL Electric Utilities Corporation and PPL EnergyPlus, LLC (Exhibit 10.5 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
10(b)-1	-	Master Power Purchase and Sale Agreement, dated as of October 15, 2001, between NorthWestern Energy Division (successor in interest to The Montana Power Company) and PPL Montana, LLC (Exhibit 10(g) to PPL Montana, LLC Form 10-K Report (File No. 333-50350) for the year ended December 31, 2001)
10(b)-2	-	Confirmation Letter, dated July 5, 2006, between PPL Montana, LLC and NorthWestern Corporation (PPL Corporation and PPL Energy Supply, LLC Form 8-K Reports (File Nos. 1-11459 and 333-74794) dated July 6, 2006)
10(c)	-	Guaranty, dated as of December 21, 2001, from PPL Energy Supply, LLC in favor of LMB Funding, Limited Partnership (Exhibit 10(j) to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2001)
10(d)-1	-	Agreement for Lease, dated as of December 21, 2001, between LMB Funding, Limited Partnership and Lower Mt. Bethel Energy, LLC (Exhibit 10(m) to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2003)
10(d)-2	-	Amendment No. 1 to said Agreement for Lease, dated as of September 16, 2002, between LMB Funding, Limited Partnership and Lower Mt. Bethel Energy, LLC (Exhibit 10(m)-1 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2003)
10(e)-1	-	Lease Agreement, dated as of December 21, 2001, between LMB Funding, Limited Partnership and Lower Mt. Bethel Energy, LLC (Exhibit 10(n) to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2003)
10(e)-2	-	Amendment No. 1 to said Lease Agreement, dated as of September 16, 2002, between LMB Funding, Limited Partnership and Lower Mt. Bethel Energy, LLC (Exhibit 10(n)-1 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2003)
10(f)	-	Facility Lease Agreement (BA 1/2) between PPL Montana, LLC and Montana OL3, LLC (Exhibit 4.7a to PPL Montana, LLC Form S-4 (Registration Statement No. 333-50350))

10(g)	-	Facility Lease Agreement (BA 3) between PPL Montana, LLC and Montana OL4, LLC (Exhibit 4.8a to PPL Montana, LLC Form S-4 (Registration Statement No. 333-50350))
10(h)	-	Services Agreement, dated as of July 1, 2000, among PPL Corporation, PPL Energy Funding Corporation and its direct and indirect subsidiaries in various tiers, PPL Capital Funding, Inc., PPL Gas Utilities Corporation, PPL Services Corporation and CEP Commerce, LLC (Exhibit 10.20 to PPL Energy Supply, LLC Form S-4 (Registration Statement No. 333-74794))
10(i)-1	-	Asset Purchase Agreement, dated as of June 1, 2004, by and between PPL Sundance Energy, LLC, as Seller, and Arizona Public Service Company, as Purchaser (Exhibit 10(a) to PPL Corporation and PPL Energy Supply, LLC Form 10-Q Reports (File Nos. 1-11459 and 333-74794) for the quarter ended June 30, 2004)
10(i)-2	-	Amendment No. 1, dated December 14, 2004, to said Asset Purchase Agreement (Exhibit 99.1 to PPL Corporation and PPL Energy Supply, LLC Form 8-K Reports (File Nos. 1-11459 and 333-74794) dated December 15, 2004)
10(j)-1	-	Receivables Sale Agreement, dated as of August 1, 2004, between PPL Electric Utilities Corporation, as Originator, and PPL Receivables Corporation, as Buyer (Exhibit 10(d) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2004)
10(j)-2	-	Amendment No. 1, dated as of August 5, 2008, to said Receivables Sale Agreement, between PPL Electric Utilities Corporation, as Originator, and PPL Receivables Corporation, as Buyer (Exhibit 10(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 6, 2008)
10(j)-3	-	Credit and Security Agreement, dated as of August 5, 2008, among PPL Receivables Corporation, PPL Electric Utilities Corporation, Victory Receivables Corporation, the Liquidity Banks from time to time party thereto and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch (Exhibit 10(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 6, 2008)
10(j)-4	-	Amendment No. 1, dated as of July 28, 2009, to said Credit and Security Agreement (Exhibit 10(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2009)
10(j)-5	-	Amendment No. 2, dated as of July 27, 2010, to said Credit and Security Agreement (Exhibit 10(g) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2010)
10(j)-6	-	Amendment No. 3, dated as of December 23, 2010, to said Credit and Security Agreement (Exhibit 10(j)-6 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
10(j)-7	-	Amendment No. 4, dated as of March 31, 2011, to said Credit and Security Agreement (Exhibit 10(c) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2011)
10(j)-8	-	Amendment No. 5, dated as of July 26, 2011, to said Credit and Security Agreement (Exhibit 10(c) to PPL Corporation Form 10-Q/A Report (File No. 1-11459) for the quarter ended June 30, 2011)
10(k)-1	-	Reimbursement Agreement, dated as of March 31, 2005, among PPL Energy Supply, LLC, The Bank of Nova Scotia, as Issuer and Administrative Agent, and the Lenders party thereto from time to time (Exhibit 10(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended March 31, 2005)
10(k)-2	-	First Amendment, dated as of June 16, 2005, to said Reimbursement Agreement (Exhibit 10(b) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended June 30, 2005)

10(k)-3	-	Second Amendment, dated as of September 1, 2005, to said Reimbursement Agreement (Exhibit 10(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended September 30, 2005)
10(k)-4	-	Third Amendment, dated as of March 30, 2006, to said Reimbursement Agreement (Exhibit 10(a) to PPL Energy Supply, LLC Form 8-K Report (File No. 333-74794) dated April 5, 2006)
10(k)-5	-	Fourth Amendment, dated as of April 12, 2006, to said Reimbursement Agreement (Exhibit 10(b) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended September 30, 2006)
10(k)-6	-	Fifth Amendment, dated as of November 1, 2006, to said Reimbursement Agreement (Exhibit 10(q)-6 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2006)
10(k)-7	-	Sixth Amendment, dated as of March 29, 2007, to said Reimbursement Agreement (Exhibit 10(q)-7 to PPL Energy Supply, LLC Form 10-K Report (File No. 333-74794) for the year ended December 31, 2007)
10(k)-8	-	Seventh Amendment, dated as of March 1, 2008, to said Reimbursement Agreement (Exhibit 10(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 333-74794) for the quarter ended March 31, 2008)
10(k)-9	-	Eighth Amendment, dated as of March 30, 2009, to said Reimbursement Agreement (Exhibit 10(a) to PPL Energy Supply, LLC Form 10-Q Report (File No. 1-32944) for the quarter ended March 31, 2009)
10(k)-10	-	Ninth Amendment, dated as of March 31, 2010, to said Reimbursement Agreement (Exhibit 99.1 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated April 6, 2010)
*10(k)-11	-	Tenth Amendment, dates as of February 22, 2012, to said Reimbursement Agreement
10(l)-1	-	$200,000,000 Revolving Credit Agreement, dated as of December 31, 2010, among PPL Electric Utilities Corporation, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender (Exhibit 10.1 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated January 6, 2011)
10(l)-2	-	Amendment No. 1, dated as of October 19, 2011, to said Revolving Credit Agreement (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 25, 2011)
10(m)-1	-	$4,000,000,000 Revolving Credit Agreement, dated as of October 19, 2010, among PPL Energy Supply, LLC, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender (Exhibit 10.1 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated October 21, 2010)
10(m)-2	-	Notice of Reduction to said Revolving Credit Agreement, dated November 17, 2010, effective as of December 1, 2010 (Exhibit 10(p)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
10(m)-3	-	Amendment No. 1, dated as of October 19, 2011, to said Revolving Credit Agreement (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 25, 2011)
10(n)	-	£150 million Credit Agreement, dated as of January 24, 2007, among Western Power Distribution Holdings Limited and the banks named therein (Exhibit 10(y) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
10(o)	-	£210 million Multicurrency Revolving Facility Agreement, dated July 7, 2009, between Western Power Distribution (South West) plc and HSBC Bank plc, Lloyds TSB Bank plc and Clydesdale Bank plc (Exhibit 10(c) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2009)

10(p)	-	Purchase and Sale Agreement, dated as of April 28, 2010, by and between E.ON US Investments Corp., PPL Corporation and E.ON AG (Exhibit No. 99.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 30, 2010)
10(q)	-	$500 million Facility Agreement, dated as of May 14, 2010, among PPL Energy Supply, LLC, as Borrower, and Morgan Stanley Bank, as Issuer (Exhibit 10(b) to PPL Energy Supply, LLC Form 10-Q Report (File No. 1-32944) for the quarter ended June 30, 2010)
10(r)	-	Purchase and Sale Agreement, dated as of September 9, 2010, by and between PPL Holtwood, LLC and LSP Safe Harbor Holdings, LLC (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 13, 2010)
10(s)	-	Purchase and Sale Agreement, dated as of September 9, 2010, by and between PPL Generation, LLC and Harbor Gen Holdings, LLC (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 13, 2010)
10(t)	-	Open-End Mortgage, Security Agreement and Fixture Filing from PPL Montour, LLC to Wilmington Trust FSB, as Collateral Agent, dated as of October 26, 2010 (Exhibit 10(w) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
10(u)	-	Open-End Mortgage, Security Agreement and Fixture Filing from PPL Brunner Island, LLC to Wilmington Trust FSB, as Collateral Agent, dated as of October 26, 2010 (Exhibit 10(x) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
10(v)	-	Guaranty of PPL Montour, LLC and PPL Brunner Island, LLC, dated as of November 3, 2010, in favor of Wilmington Trust FSB, as Collateral Agent, for itself as Beneficiary and for the Secured Counterparties described therein (Exhibit 10 (y) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
10(w)-1	-	$400,000,000 Revolving Credit Agreement, dated as of November 1, 2010, among Kentucky Utilities Company, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 1, 2010)
10(w)-2	-	Amendment No.1, dated as of June 13, 2011, to said Revolving Credit Agreement (Exhibit 10(a) to PPL Corporation Form 10-Q/A Report (File No. 1-11459) for the quarter ended June 30, 2011)
10(w)-3	-	Amendment No. 2, dated as of October 19, 2011, to said Revolving Credit Agreement (Exhibit 10.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 25, 2011)
10(x)-1	-	$400,000,000 Revolving Credit Agreement, dated as of November 1, 2010, among Louisville Gas and Electric Company, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 1, 2010)
10(x)-2	-	Amendment No. 1, dated as of June 13, 2011, to said Revolving Credit Agreement (Exhibit 10(b) to PPL Corporation Form 10-Q/A Report (File No. 1-11459) for the quarter ended June 30, 2011)
10(x)-3	-	Amendment No. 2, dated as of October 19, 2011, to said Revolving Credit Agreement (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 25, 2011)
10(y)-1	-	£3,600,000,000 Senior Bridge Term Loan Credit Agreement, dated as of March 25, 2011, among PPL Capital Funding, Inc. and PPL WEM Holdings PLC (f/k/a WPD Investment Holdings Limited), as Borrowers, PPL, as Guarantor, the lenders from time to time party thereto and Bank of America, N.A., as Administrative Agent, Credit Suisse, AG, as Syndication Agent, and Merrill Lynch, Pierce, Fenner & Smith Incorporation and Credit Suisse Securities (USA) LLC as Joint Lead Arrangers and Joint Bookrunners (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 29, 2011)

10(y)-2	-	Amendment No. 1, dated April 15, 2011, to said Senior Bridge Term Loan Credit Agreement (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 19, 2011)
10(z)	-	£300,0000,000 Multicurrency Revolving Credit Facility Agreement, dated April 4, 2011, among Western Power Distribution (West Midlands) plc and Royal Bank of Canada as Lead Arranger, Bank of America Securities Limited as Bookrunner and Facility Agent, Bank of America, N.A. as Issuing Bank and the other banks party thereto as Mandated Lead Arrangers (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 8, 2011)
10(aa)	-	£300,000,000 Multicurrency Revolving Credit Facility Agreement, dated April 4, 2011, among Western Power Distribution (East Midlands) plc and Royal Bank of Canada as Lead Arranger, Bank of America Securities Limited as Bookrunner and Facility Agent, Bank of America, N.A. as Issuing Bank and the other banks party thereto as Mandated Lead Arrangers (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 8, 2011)
10(bb)-1	-	$198,309,583.05 Letter of Credit Agreement, dated as of April 29, 2011, among Kentucky Utilities Company, as Borrowers, and Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, as Administrative Agent and the lenders and letter of credit issuing banks party thereto from time to time (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 2, 2011)
10(bb)-2	-	Amendment No. 1, dated as of August 2, 2011, to said Letter of Credit Agreement (Exhibit 10(d) to PPL Corporation Form 10-Q/A Report (File No. 1-11459) for the quarter ended June 30, 2011)
10(cc)	-	£245,000,000 Revolving Credit Facility Agreement, dated January 12, 2012, among Western Power Distribution (South West) plc, the lenders party thereto and Lloyds TSB Bank Plc and Mizuho Corporate Bank, Ltd. as Joint Coordinators (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated January 18, 2012)
[_]10(dd)-1	-	Amended and Restated Directors Deferred Compensation Plan, dated June 12, 2000 (Exhibit 10(h) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2000)
[_]10(dd)-2	-	Amendment No. 1 to said Directors Deferred Compensation Plan, dated December 18, 2002 (Exhibit 10(m)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2002)
[_]10(dd)-3	-	Amendment No. 2 to said Directors Deferred Compensation Plan, dated December 4, 2003 (Exhibit 10(q)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
[_]10(dd)-4	-	Amendment No. 3 to said Directors Deferred Compensation Plan, dated as of January 1, 2005 (Exhibit 10(cc)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2005)
[_]10(dd)-5	-	Amendment No. 4 to said Directors Deferred Compensation Plan, dated as of May 1, 2008 (Exhibit 10(x)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
[_]10(dd)-6	-	Amendment No. 5 to said Directors Deferred Compensation Plan, dated May 28, 2010 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2010)
[_]10(ee)-1	-	Trust Agreement, dated as of April 1, 2001, between PPL Corporation and Wachovia Bank, N.A. (as successor to First Union National Bank), as Trustee
[_]10(ee)-2	-	Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(c) to PPL Corporation Form 10-Q Report (File No. 1-1149) for the quarter ended March 31, 2007)

[_]10(ee)-3	-	Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
[_]10(ee)-4	-	Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(e) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
[_]10(ff)-1	-	Amended and Restated Officers Deferred Compensation Plan, dated December 8, 2003 (Exhibit 10(r) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
[_]10(ff)-2	-	Amendment No. 1 to said Officers Deferred Compensation Plan, dated as of January 1, 2005 (Exhibit 10(ee)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2005)
[_]10(ff)-3	-	Amendment No. 2 to said Officers Deferred Compensation Plan, dated as of January 22, 2007 (Exhibit 10(bb)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
[_]10(ff)-4	-	Amendment No. 3 to said Officers Deferred Compensation Plan, dated as of June 1, 2008 (Exhibit 10(z)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
*[_]10(ff)-5	-	Amendment No. 4 to said Officers Deferred Compensation Plan, dated as of February 15, 2012
[_]10(gg)-1	-	Amended and Restated Supplemental Executive Retirement Plan, dated December 8, 2003 (Exhibit 10(s) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
[_]10(gg)-2	-	Amendment No. 1 to said Supplemental Executive Retirement Plan, dated December 16, 2004 (Exhibit 99.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated December 17, 2004)
[_]10(gg)-3	-	Amendment No. 2 to said Supplemental Executive Retirement Plan, dated as of January 1, 2005 (Exhibit 10(ff)-3 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
[_]10(gg)-4	-	Amendment No. 3 to said Supplemental Executive Retirement Plan, dated as of January 22, 2007 (Exhibit 10(cc)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
[_]10(gg)-5	-	Amendment No. 4 to said Supplemental Executive Retirement Plan, dated as of December 9, 2008 (Exhibit 10(aa)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
*[_]10(gg)-6	-	Amendment No. 5 to said Supplemental Executive Retirement Plan, dated as of February 15, 2012
[_]10(hh)-1	-	Amended and Restated Incentive Compensation Plan, effective January 1, 2003 (Exhibit 10(p) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2002)
[_]10(hh)-2	-	Amendment No. 1 to said Incentive Compensation Plan, dated as of January 1, 2005 (Exhibit 10(gg)-2 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
[_]10(hh)-3	-	Amendment No. 2 to said Incentive Compensation Plan, dated as of January 26, 2007 (Exhibit 10(dd)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
[_]10(hh)-4	-	Amendment No. 3 to said Incentive Compensation Plan, dated as of March 21, 2007 (Exhibit 10(f) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)

[_]10(hh)-5	-	Amendment No. 4 to said Incentive Compensation Plan, effective December 1, 2007 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September, 30, 2008)
[_]10(hh)-6	-	Amendment No. 5 to said Incentive Compensation Plan, dated as of December 16, 2008 (Exhibit 10(bb)-6 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2008)
[_]10(hh)-7	-	Form of Stock Option Agreement for stock option awards under the Incentive Compensation Plan (Exhibit 10(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 1, 2006)
[_]10(hh)-8	-	Form of Restricted Stock Unit Agreement for restricted stock unit awards under the Incentive Compensation Plan (Exhibit 10(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 1, 2006)
[_]10(hh)-9	-	Form of Restricted Stock Unit Agreement for restricted stock unit awards under the Incentive Compensation Plan pursuant to PPL Corporation Cash Incentive Premium Exchange Program (Exhibit 10(c) to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 1, 2006)
[_]10(ii)-1	-	Amended and Restated Incentive Compensation Plan for Key Employees, effective January 1, 2003 (Schedule B to Proxy Statement of PPL Corporation, dated March 17, 2003)
[_]10(ii)-2	-	Amendment No. 1 to said Incentive Compensation Plan for Key Employees, dated as of January 1, 2005 (Exhibit (hh)-1 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005
[_]10(ii)-3	-	Amendment No. 2 to said Incentive Compensation Plan for Key Employees, dated as of January 26, 2007 (Exhibit 10 (ee)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
[_]10(ii)-4	-	Amendment No. 3 to said Incentive Compensation Plan for Key Employees, dated as of March 21, 2007 (Exhibit 10(q) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
[_]10(ii)-5	-	Amendment No. 4 to said Incentive Compensation Plan for Key Employees, dated as of December 15, 2008 (Exhibit 10 (cc)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
[_]10(ii)-6	-	Amendment No. 5 to said Incentive Compensation Plan for Key Employees, dated as of March 24, 2011 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2011)
[_]10(jj)	-	Short-term Incentive Plan (Schedule A to Proxy Statement of PPL Corporation, dated April 6, 2011)
[_]10(kk)	-	Agreement, dated January 15, 2003, between PPL Corporation and Mr. Miller regarding Supplemental Pension Benefits (Exhibit 10(u) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2002)
[_]10(ll)	-	Employment letter, dated May 31, 2006, between PPL Services Corporation and William H. Spence (Exhibit 10(pp) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
[_]10(mm)	-	Amendments to certain compensation programs and arrangements for Named Executive Officers of PPL Corporation and PPL Electric Utilities Corporation and compensation arrangement changes for non-employee Directors of PPL Corporation (PPL Corporation and PPL Electric Utilities Corporation Form 8-K Reports (File Nos. 1-11459 and 1-905) dated November 1, 2006)
[_]10(nn)	-	Form of Retention Agreement entered into between PPL Corporation and Messrs. Farr and Miller (Exhibit 10(h) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)

[_]10(oo)-1	-	Form of Severance Agreement entered into between PPL Corporation and the Named Executive Officers (Exhibit 10(i) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
[_]10(oo)-2	-	Amendment to said Severance Agreement (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2009)
[_]10(pp)	-	Form of Performance Unit Agreement entered into between PPL Corporation and the Named Executive Officers (Exhibit 10(ss) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2007)
[_]10(qq)	-	Retention Agreement, effective as of December 1, 2010, entered into between PPL Corporation and Victor A. Staffieri (Exhibit 10(rr) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2011)
[_]10(rr)	-	Amended and Restated Employment and Severance Agreement, dated as of October 29, 2010, between E.ON U.S. LLC and Victor A. Staffieri (Exhibit 10(ss) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2011)
*12(a)	-	PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
*12(b)	-	PPL Energy Supply, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
*12(c)	-	PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
*12(d)	-	LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
*12(e)	-	Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
*12(f)	-	Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges
*21	-	Subsidiaries of PPL Corporation
*23(a)	-	Consent of Ernst & Young LLP - PPL Corporation
*23(b)	-	Consent of Ernst & Young LLP - PPL Energy Supply, LLC
*23(c)	-	Consent of Ernst & Young LLP - PPL Electric Utilities Corporation
*23(d)	-	Consent of PricewaterhouseCoopers LLP - PPL Corporation
*24	-	Power of Attorney
*31(a)	-	Certificate of PPL's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31(b)	-	Certificate of PPL's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31(c)	-	Certificate of PPL Energy Supply's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

*31(d)	-	Certificate of PPL Energy Supply's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31(e)	-	Certificate of PPL Electric's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31(f)	-	Certificate of PPL Electric's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31(g)	-	Certificate of LKE's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31(h)	-	Certificate of LKE's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31(i)	-	Certificate of LG&E's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31(j)	-	Certificate of LG&E's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31(k)	-	Certificate of KU's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31(l)	-	Certificate of KU's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32(a)	-	Certificate of PPL's principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32(b)	-	Certificate of PPL's principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32(c)	-	Certificate of PPL Energy Supply's principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32(d)	-	Certificate of PPL Energy Supply's principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32(e)	-	Certificate of PPL Electric's principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32(f)	-	Certificate of PPL Electric's principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32(g)	-	Certificate of LKE's principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32(h)	-	Certificate of LKE's principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32(i)	-	Certificate of LG&E's principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

*32(j)	-	Certificate of LG&E's principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32(k)	-	Certificate of KU's principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32(l)	-	Certificate of KU's principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	-	XBRL Instance Document for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.SCH	-	XBRL Taxonomy Extension Schema for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.CAL	-	XBRL Taxonomy Extension Calculation Linkbase for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.DEF	-	XBRL Taxonomy Extension Definition Linkbase for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.LAB	-	XBRL Taxonomy Extension Label Linkbase for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.PRE	-	XBRL Taxonomy Extension Presentation Linkbase for PPL Corporation, PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

CERTIFICATE OF AMENDMENT

OF

PPL ENERGY SUPPLY, LLC

1. The name of the limited liability company is PPL Energy Supply, LLC.

2. The Certificate of Formation of the limited liability company is hereby amended as follows:

SECOND: The address of its registered office in the State of Delaware is to be Corporation Trust Company, 1209 Orange Street, Wilmington, County of New Castle, Delaware 19801, and its registered agent at such address is Corporation Trust Company.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Amendment of PPL Energy Supply, LLC this ______ day of November, 2002.

By: ____________________________
Michael A. McGrail
Secretary

Exhibit 4(ee)-3

EXECUTION COPY

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT, KENTUCKY

AND

LOUISVILLE GAS AND ELECTRIC COMPANY

A Kentucky Corporation

* * * * *

AMENDMENT NO. 2 TO AMENDED AND RESTATED LOAN AGREEMENT
IN CONNECTION WITH POLLUTION CONTROL FACILITIES

* * * * *

Dated as of October 1, 2011

* * * * *

NOTICE: The interest of the Louisville/Jefferson County Metro Government, Kentucky in and to this Amendment No. 2 to Amended and Restated Loan Agreement has been assigned to The Bank of New York Mellon, as Trustee, under the Second Amended and Restated Indenture of Trust dated as of October 1, 2011.

TABLE OF CONTENTS

THIS AMENDMENT NO. 2 TO AMENDED AND RESTATED LOAN AGREEMENT , dated as of October 1, 2011 (this "Amendment No. 2 to Loan Agreement"), by and between the LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT, KENTUCKY , the governmental successor in interest by operation of law to the County of Jefferson, Kentucky, being a public body corporate and politic duly created and existing as a de jure political subdivision under the Constitution and laws of the Commonwealth of Kentucky, and LOUISVILLE GAS AND ELECTRIC COMPANY , a corporation organized and existing under the laws of the Commonwealth of Kentucky.

W I T N E S S E T H :

WHEREAS , the Louisville/Jefferson County Metro Government, Kentucky (the "Metro Government" or "Issuer") is the governmental successor in interest by operation of law to the County of Jefferson, Kentucky and constitutes a public body corporate and politic duly created and existing as a de jure political subdivision under the Constitution and laws of the Commonwealth of Kentucky, and pursuant to the provisions of Chapter 67C and Sections 103.200 to 103.285, inclusive, of the Kentucky Revised Statutes (the "Act"), the Issuer has the power to enter into the transactions contemplated by this Amendment No. 2 to Loan Agreement and to carry out its obligations hereunder; and

WHEREAS , Issuer came into legal existence on January 6, 2003, by operation of law and voter approval in accordance with laws now codified as Chapter 67C of the Kentucky Revised Statutes and replaced and superseded the prior governments of both the City of Louisville, Kentucky and the County of Jefferson, Kentucky (the "Predecessor County") and pursuant to law has mandatorily assumed all existing contracts and obligations of the former City and County and has been endowed with all powers of each of such former City and County; and

WHEREAS , the Metro Government, as successor to the Predecessor County, is authorized pursuant to the Act to issue negotiable bonds and lend the proceeds from the sale of such bonds to a utility company to finance and refinance the acquisition of "pollution control facilities," as defined by the Act ("Pollution Control Facilities"), for the abatement and control of air pollution and to refund bonds of the Predecessor County which were previously issued for any of such purposes; and

WHEREAS , on May 19, 2000, the Issuer, at the request of Louisville Gas and Electric Company (the "Company"), issued its Pollution Control Revenue Bonds, 2000 Series A (Louisville Gas and Electric Company Project) in the original principal amount of $25,000,000 (the "Bonds" or "2000 Series A Bonds"), pursuant to the Indenture of Trust dated as of May 1, 2000, with The Bank of New York Mellon, as Trustee, Paying Agent and Bond Registrar (the "Trustee"), which Indenture of Trust was amended and restated pursuant to the Amended and Restated Indenture of Trust dated as of September 1, 2008, between the Issuer and the Trustee, and has been further amended and supplemented pursuant to the Supplemental Indenture No. 1 to Amended and Restated Indenture of Trust dated as of September 1, 2010, between the Issuer and the Trustee (collectively, "Original Indenture of Trust"), and the Issuer loaned the proceeds of the 2000 Series A Bonds to the Company pursuant to the Loan Agreement dated as of May 1, 2000, between the Issuer and the Company, which Loan Agreement was amended and restated pursuant to the Amended and Restated Loan Agreement dated as of September 1, 2008, between the Issuer and the Company, and has been further amended and supplemented pursuant to the Amendment No. 1 to Loan Agreement dated as of September 1, 2010, between the Issuer and the Company (collectively, the "Loan Agreement"); and

WHEREAS , pursuant to Section 13.01 of the Original Indenture of Trust, the consent of the holders of the 2000 Series A Bonds is not required for the Issuer and the Company to enter into an amendment to the Loan Agreement in order to conform the Loan Agreement with changes and modifications to the Original Indenture of Trust made pursuant to Section 12.01 of the Original Indenture of Trust; and

WHEREAS , it is now appropriate and necessary that the Loan Agreement be amended pursuant to Section 13.01 of the Original Indenture of Trust in order to permit the Bonds to be converted to a mode that will allow for the 2000 Series A Bonds to be purchased by the Purchaser (as hereinafter defined) and to bear interest at the rates applicable during a "LIBOR Index Rate Period", as more particularly described and provided for in the Second Amended and Restated Indenture of Trust dated as of October 1, 2011, between the Issuer and Trustee (the "Indenture" or "Indenture of Trust"); and

WHEREAS , pursuant to and in accordance with the provisions of the Act and an Ordinance duly adopted by the Issuer on [October 27,] 2011, and in furtherance of the purposes of the Act and at the request of the Company, the Issuer has determined to enter into this Amendment No. 2 to Loan Agreement; and

WHEREAS , the Issuer and the Trustee have entered into the Second Amended and Restated Indenture of Trust between the Issuer and the Trustee of even date (the "Indenture of Trust") herewith pursuant to ARTICLE XII of the Original Indenture of Trust; and

WHEREAS , the Company shall cause to be delivered to the Issuer and the Trustee the opinion of Bond Counsel required under ARTICLE XIII of the Indenture of Trust concurrently with the execution and delivery of this Amendment No. 2 to Loan Agreement; and

WHEREAS , all acts, conditions and things required by the Constitution and laws of the Commonwealth of Kentucky and by the requirements of the Issuer to happen, exist and be performed precedent to and in the execution and delivery of this Amendment No. 2 to Loan Agreement have happened, have existed and have been performed as so required in order to make this Amendment No. 2 to Loan Agreement a valid and binding loan agreement for the security of the holders of the 2000 Series A Bonds and for the payment of all amounts due under the Loan Agreement and this Amendment No. 2 to Loan Agreement in accordance with their respective terms.

NOW, THEREFORE, FOR AND IN CONSIDERATION OF THE PREMISES AND THE MUTUAL COVENANTS AND AGREEMENTS HEREINAFTER CONTAINED, THE PARTIES HERETO AGREE EACH WITH THE OTHER AS FOLLOWS :

ARTICLE I

AMENDMENTS TO THE LOAN AGREEMENT

Section 1.1. Amendment of Section 1.02. Incorporation of Certain Terms by Reference. The following defined terms are hereby added to Section 1.02 of the Loan Agreement and shall have the meanings set forth in ARTICLE I of the Indenture of Trust:

"Bank"
"Base Rate"
"Bond Purchase and Bank Covenants Agreement"
"Default Rate"
"Federal Funds Open Rate"
"Governmental Authority"
"Initial Libor Index Rate Period"
"LIBOR"
"LIBOR Applicable Rating Level"
"LIBOR Index Rate"
"LIBOR Index Rate Period"
"LIBOR Margin"
"Margin Rate Factor"
"Maximum Federal Corporate Tax Rate"
"Prime Rate"
"Purchaser"

Section 1.2. Amendment of Section 1.03 Additional Definitions. In addition to the terms whose definitions are incorporated by reference herein pursuant to ARTICLE I of the Indenture of Trust, the following terms shall have the meanings set forth in this Section unless the use or context clearly indicates otherwise:

"Taxable Period" means, with respect to the 2000 Series A Bonds, the period which elapses from the date on which the interest on the 2000 Series A Bonds is includable in the gross income of the holders thereof as a result of a Determination of Taxability to and including the mandatory purchase date for the 2000 Series A Bonds as a result of such Determination of Taxability.

"Taxable Rate" means LIBOR plus the LIBOR Margin.

Section 1.3. Amendment of Section 10.3. Obligations to Prepay Loan. Section 10.3 of the Loan Agreement is hereby amended and restated to read as follows:

Section 10.3 Obligations to Prepay Loan.

(a) Mandatory Redemption Upon Determination of Taxability. Company shall be obligated to prepay the entire Loan or any part thereof, as provided below, prior to the required full payment of the 2000 Series A Bonds (or prior to making provision for payment thereof in accordance with the Indenture) on the 180th day (or such earlier date as may be designated by Company), which, in every case, must be a Business Day, upon the occurrence of a Determination of Taxability. The Issuer and Company shall take all actions required to mandatorily redeem the 2000 Series A Bonds at the cost of the Company upon the terms specified in this Agreement and in Article IV of the Indenture following the occurrence of a Determination of Taxability, including, but not limited to, prepaying appropriate amounts due on the 2000 Series A Bonds in order to effect such redemption. The 2000 Series A Bonds shall be redeemed by the Issuer, in whole, or in such part as described below, at a redemption price equal to 100% of the principal amount thereof, without redemption premium, plus accrued interest, if any, to the redemption date, within 180 days following a Determination of Taxability. For purposes of this section, a "Determination of Taxability" shall mean the receipt by the Trustee of written notice from a current or former registered owner of a 2000 Series A Bond or from the Company or the Issuer of (i) the issuance of a published or private ruling or a technical advice memorandum by the Internal Revenue Service in which the Company participated or has been given the opportunity to participate, and which ruling or memorandum the Company, in its discretion, does not contest or from which no further right of administrative or judicial review or appeal exists, or (ii) a final determination from which no further right of appeal exists of any court of competent jurisdiction in the United States in a proceeding in which the Company has participated or has been a party, or has been given the opportunity to participate or be a party, in each case, to the effect that as a result of a failure by the Company to perform or observe any covenant or agreement or the inaccuracy of any representation contained in this Agreement or any other agreement or certificate delivered in connection with the 2000 Series A Bonds, the interest on the 2000 Series A Bonds is included in the gross income of the owners thereof for federal income tax purposes, other than with respect to a person who is a "substantial user" or a "related person" of a substantial user within the meaning of the Section 147 of Internal Revenue Code of 1986, as amended (the "Code"); provided, however, that no such Determination of Taxability shall be considered to exist as a result of the Trustee receiving notice from a current or former registered owner of a 2000 Series A Bond or from the Issuer unless (i) the Issuer or the registered owner or former registered owner of the 2000 Series A Bond involved in such proceeding or action (A) gives the Company and the Trustee prompt notice of the commencement thereof, and (B) (if the Company agrees to pay all expenses in connection therewith) offers the Company the opportunity to control unconditionally the defense thereof, and (ii) either (A) the Company does not agree within 30 days of receipt of such offer to pay such expenses and liabilities and to control such defense, or (B) the Company shall exhaust or choose not to exhaust all available proceedings for the contest, review, appeal or rehearing of such decree, judgment or action which the Company determines to be appropriate. No Determination of Taxability described above will result from the inclusion of interest on any 2000 Series A Bond in the computation of minimum or indirect taxes. All of the 2000 Series A Bonds shall be redeemed upon a Determination of Taxability as described above unless, in the opinion of Bond Counsel, redemption of a portion of the 2000 Series A Bonds of one or more series or one or more maturities would have the result that interest payable on the remaining 2000 Series A Bonds outstanding after the redemption would not be so included in any such gross income.

In the event any of the Issuer, the Company or the Trustee has been put on notice or becomes aware of the existence or pendency of any inquiry, audit or other proceedings relating to the 2000 Series A Bonds being conducted by the Internal Revenue Service, the party so put on notice shall give immediate written notice to the other parties of such matters.

Promptly upon learning of the occurrence of a Determination of Taxability (whether or not the same is being contested), or any of the events described in this Section 10.3(a) , the Company shall give notice thereof to the Trustee and the Issuer.

(b) In the case of the mandatory obligation of Company to prepay the Loan or any part thereof after the occurrence of a Determination of Taxability, pursuant to Section 10.3(a) hereof, Company shall be obligated to prepay such Loan or such part thereof not later than 180 days after any such final determination as specified in Section 10.3(a) hereof and to provide to Trustee for deposit in the Bond Fund an amount sufficient, together with other funds deposited with the Trustee and available for such purpose, to redeem such 2000 Series A Bonds at the price of 100% of the principal amount thereof in accordance with Section 5.1 hereof plus interest accrued and to accrue to the date of redemption of the 2000 Series A Bonds and to pay all reasonable and necessary fees and expenses of Trustee and any paying agents and all other liabilities of Company accrued and to accrue hereunder to the date of redemption of the 2000 Series A Bonds.

(c) If a Determination of Taxability occurs when all or any portion of the 2000 Series A Bonds are owned by the Purchaser, the Company hereby agrees to pay to the Purchaser, in addition to the redemption price of the 2000 Series A Bonds owned by the Purchaser, the following additional amounts:

(i) an additional amount equal to the difference between (1) the amount of interest paid on the 2000 Series A Bonds during the Taxable Period and (2) the amount of interest that would have been paid on the 2000 Series A Bonds during the Taxable Period had the 2000 Series A Bonds borne interest at the Taxable Rate; and

(ii) an amount equal to any interest, penalties on overdue interest and additions to tax (as referred to in Subchapter A of Chapter 68 of the Code) owed by the Purchaser as a result of occurrence of a Determination of Taxability.

ARTICLE II

REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 2.1. Representations, Warranties and Covenants by the Issuer . The Issuer represents, warrants and covenants that:

(a) The Issuer is a public body corporate and politic duly created and existing as a de jure political subdivision under the Constitution and laws of the Commonwealth of Kentucky and, pursuant to the Act, the Issuer has the power to enter into this Amendment No. 2 to Loan Agreement and the Indenture of Trust and the transactions contemplated hereby and thereby and to carry out its obligations hereunder and thereunder.

(b) To its knowledge, the Issuer is not in default under or in violation of the Constitution or any of the laws of the Commonwealth of Kentucky relevant to the consummation of the transactions contemplated hereby, and the Issuer has been duly authorized to execute and deliver this Amendment No. 2 to Loan Agreement and the Indenture of Trust. The Issuer agrees that it will do or cause to be done in a timely manner all things necessary to preserve and keep in full force and effect its existence, and to carry out Issuer's respective representations, warranties, covenants, agreements and obligations set forth in this Amendment No. 2 to Loan Agreement.

Section 2.2. Representations, Warranties and Covenants by the Company . The Company represents, warrants and covenants that:

(a) The Company (i) is a corporation duly incorporated, validly existing and in good standing under the laws of the Commonwealth of Kentucky, (ii) is duly qualified, authorized and licensed to transact business in each jurisdiction wherein failure to qualify would have a material adverse effect on the conduct of its business, and (iii) is not in violation of any provision of its Articles of Incorporation, its By-Laws or any laws of the Commonwealth of Kentucky relevant to the transactions contemplated hereby.

(b) The Company has full and complete legal power and authority to execute and deliver this Amendment No. 2 to Loan Agreement, and has by proper corporate action duly authorized the execution and delivery of this Amendment No. 2 to Loan Agreement.

(c) No event of default, and no event of the type described in clauses (a) through (f) of Section 9.1 of the Loan Agreement has occurred and is continuing, and no condition exists which, with the giving of notice or the lapse of time, or both, would constitute an event of default or a default under any agreement or instrument to which the Company is a party or by which the Company is or may be bound or to which any of the property or assets of the Company is or may be subject which would impair in any material respect its ability to carry out its obligations under the Loan Agreement, this Amendment No. 2 to Loan Agreement or the transactions contemplated hereby or thereby. Neither the execution and delivery of the Loan Agreement, this Amendment No. 2 to Loan Agreement, nor the consummation of the transactions contemplated hereby or by the Indenture of Trust, nor the fulfillment of or compliance with the terms and conditions hereof or thereof, conflicts with or results in a breach of the terms, conditions or provisions of any corporate restriction or any agreement or instrument to which the Company is now a party or by which it is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any prohibited lien, charge or encumbrance whatsoever upon any of the property or assets of the Company under the terms of any instrument or agreement.

ARTICLE III

MISCELLANEOUS

Section 3.1. Term of Amendment No. 2 to Loan Agreement. This Amendment No. 2 to Loan Agreement shall remain in full force and effect from the date hereof to and including the later of May 1, 2027, or until such time as all of the 2000 Series A Bonds shall have been fully paid (or provision made for such payment pursuant to the Indenture of Trust and any amendments thereto), whichever shall be later; provided, however, that the Loan Agreement, as amended pursuant to this Amendment No. 2 to Loan Agreement, may be cancelled and terminated prior to said date in accordance with the provisions of Section 11.1 of the Loan Agreement.

Section 3.2. Ratification. Except as amended and supplemented by Articles I and II hereof, the Issuer and the Company hereby ratify and reaffirm the terms and provisions of the Loan Agreement and their respective representations, warranties, covenants, agreements and obligations set forth therein.

Section 3.3. Effective Date. This Amendment No. 2 to Loan Agreement has been made and entered into as of the date first written above.

Section 3.4. Binding Effect. This Amendment No. 2 to Loan Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Company and their respective successors and assigns, subject, however, to the limitations contained in Sections 7.2, 8.l and 8.3 of the Loan Agreement.

Section 3.5. Severability. In the event any provision of this Amendment No. 2 to Loan Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 3.6. Execution in Counterparts. This Amendment No. 2 to Loan Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 3.7. Applicable Law. This Amendment No. 2 to Loan Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Kentucky.

Section 3.8. Captions. The captions or headings in this Amendment No. 2 to Loan Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions, Articles or Sections of this Amendment No. 2 to Loan Agreement.

Section 3.9. No Pecuniary Liability of Issuer. No provision, covenant or agreement contained in this Amendment No. 2 to Loan Agreement or breach thereof shall constitute or give rise to a pecuniary liability of the Issuer or a charge upon its general credit or taxing powers.

(signature page immediately follows)

IN WITNESS WHEREOF, the Issuer and the Company have caused this Amendment No. 2 to Loan Agreement to be executed in their respective corporate names and their respective corporate seals to be hereunto affixed and attested by their duly authorized officers, all of the date first written.

LOUISVILLE/JEFFERSON COUNTY
METRO GOVERNMENT, KENTUCKY

(SEAL)

By ______________________________
GREG FISCHER
Mayor

ATTEST:

____
KATHLEEN J. HERRON
Metro Council Clerk

APPROVED AS TO FORM AND LEGALITY:

Michael J. O'Connell
Jefferson County Attorney

By ______________________________
TERRI A. GERAGHTY
Assistant County Attorney

LOUISVILLE GAS AND ELECTRIC
COMPANY

(SEAL)

By ______________________________
DANIEL K. ARBOUGH
Treasurer

ATTEST:

____
JOHN R. McCALL
Secretary

Exhibit 10(k)-11

Execution Version

TENTH AMENDMENT TO REIMBURSEMENT AGREEMENT

THIS TENTH AMENDMENT TO REIMBURSEMENT AGREEMENT, dated as of February 22, 2012 (this " Amendment "), to the Existing Reimbursement Agreement (as defined below) is made by PPL ENERGY SUPPLY, LLC, a Delaware limited liability company (the " Account Party "), and certain of the Lenders (such capitalized term and other capitalized terms used in this preamble and the recitals below to have the meanings set forth in, or are defined by reference in, Article I below).

W I T N E S S E T H :

WHEREAS, the Account Party, the Lenders and The Bank of Nova Scotia, as the Issuer and as Administrative Agent, are all parties to the Reimbursement Agreement, dated as of March 31, 2005 (as amended or otherwise modified prior to the date hereof, the " Existing Reimbursement Agreement ", and as amended by this Amendment and as the same may be further amended, supplemented, amended and restated or otherwise modified from time to time, the " Reimbursement Agreement "); and

WHEREAS, the Account Party has requested that the Lenders amend certain provisions of the Existing Reimbursement Agreement and the Lenders are willing to modify the Existing Reimbursement Agreement on the terms and subject to the conditions hereinafter set forth;

NOW, THEREFORE, the parties hereto hereby covenant and agree as follows:

ARTICLE I
DEFINITIONS

SECTION 1.1. Certain Definitions . The following terms when used in this Amendment shall have the following meanings (such meanings to be equally applicable to the singular and plural forms thereof):

" Account Party " is defined in the preamble .

" Amendment " is defined in the preamble .

" Existing Reimbursement Agreement " is defined in the first recital .

" Reimbursement Agreement " is defined in the first recital .

SECTION 1.2. Other Definitions . Terms for which meanings are provided in the Existing Reimbursement Agreement are, unless otherwise defined herein or the context otherwise requires, used in this Amendment with such meanings.

ARTICLE II
AMENDMENTS TO THE EXISTING REIMBURSEMENT AGREEMENT

Effective as of the date hereof, but subject to the occurrence of the satisfaction of the conditions in Article III , the provisions of the Existing Reimbursement Agreement referred to below are hereby amended in accordance with this Article II

SECTION 2.1. Amendment to Section 1.1 . Section 1.1 of the Existing Reimbursement Agreement is hereby amended (a) by deleting the definition of "Applicable Margin", (b) by deleting the reference to "Applicable Margin" in the definition of "Debt Rating" and (c) by amending and restating the definitions of "Applicable Commitment Fee Margin", "Applicable Letter of Credit Margin", "Applicable Margin" and "Incorporated Agreement" in their entireties as follows:

" Applicable Commitment Fee Margin " from time to time, the following percentages per annum, based upon the Debt Rating as set forth below:

Pricing Level	Debt Rating	Applicable Commitment Fee Margin
1	≥ A- from S&P/ A3 from Moody's	0.125%
2	BBB+ from S&P/ Baa1 from Moody's	0.175%
3	BBB from S&P/ Baa2 from Moody's	0.20%
4	BBB- from S&P/Baa3 from Moody's	0.25%
5	<BBB- from S&P/ Baa3 from Moody's	0.35%

" Applicable Letter of Credit Margin " from time to time, the following percentages per annum, based upon the Debt Rating as set forth below:

Pricing Level	Debt Rating	Applicable Letter of Credit Margin
1	≥ A- from S&P/ A3 from Moody's	1.10%
2	BBB+ from S&P/ Baa1 from Moody's	1.35%
3	BBB from S&P/ Baa2 from Moody's	1.60%
4	BBB- from S&P/Baa3 from Moody's	1.725%
5	<BBB- from S&P/ Baa3 from Moody's	1.975%

"" Incorporated Agreement " means the $4,000,000,000 Revolving Credit Agreement, dated as of October 19, 2010, as amended by Amendment No. 1 to the Revolving Credit Agreement, dated as of October 19, 2011, among the Account Party, the lenders from time to time party thereto, Wells Fargo Bank, National Association, as administrative agent, issuing lender and swingline lender, certain financial institutions, as syndication agents, certain financial institutions, as lead arrangers, and certain financial institutions, as documentation agents, as in effect on the date hereof and without giving effect to any subsequent modification, supplement, amendment or waiver by the lenders under, or by other parties to, the Incorporated Agreement, unless the Required Lenders agree in writing that such modification, supplement, amendment or waiver shall apply to such provisions or schedules incorporated herein.

SECTION 2.2. Amendment to Section 3.1 . Section 3.1 of the Existing Reimbursement Agreement is hereby amended by replacing the reference therein to "the Applicable Margin" with a reference to "2%".

ARTICLE III
CONDITIONS TO EFFECTIVENESS

This Amendment and the amendments contained herein shall become effective as of the date hereof when each of the conditions set forth in this Article III shall have been fulfilled to the satisfaction of the Administrative Agent.

SECTION 3.1. Counterparts . The Administrative Agent shall have received counterparts hereof executed on behalf of the Account Party and the each of the Lenders.

SECTION 3.2. Costs and Expenses, etc . The Administrative Agent shall have received for the account of each Lender, all fees, costs and expenses due and payable pursuant to Section 10.3 of the Reimbursement Agreement, if then invoiced.

SECTION 3.3. Satisfactory Legal Form . The Administrative Agent and its counsel shall have received all information, and such counterpart originals or such certified or other copies of such materials, as the Administrative Agent or its counsel may reasonably request, and all legal matters incident to the effectiveness of this Amendment shall be satisfactory to the Administrative Agent and its counsel. All documents executed or submitted pursuant hereto or in connection herewith shall be reasonably satisfactory in form and substance to the Administrative Agent and its counsel.

ARTICLE IV
MISCELLANEOUS

SECTION 4.1. Cross-References . References in this Amendment to any Article or Section are, unless otherwise specified, to such Article or Section of this Amendment.

SECTION 4.2. Loan Document Pursuant to Existing Reimbursement Agreement . This Amendment is a Loan Document executed pursuant to the Existing Reimbursement Agreement and shall (unless otherwise expressly indicated therein) be construed, administered and applied in accordance with all of the terms and provisions of the Existing Reimbursement Agreement, as amended hereby, including Article X thereof.

SECTION 4.3. Successors and Assigns . This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

SECTION 4.4. Counterparts. This Amendment may be executed by the parties hereto in several counterparts, each of which when executed and delivered shall be an original and all of which shall constitute together but one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by facsimile shall be effective as delivery of a manually executed counterpart of this Amendment.

SECTION 4.5. Governing Law. THIS AMENDMENT WILL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING FOR SUCH PURPOSE SECTIONS 5-1401 AND 5-1402 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK).

SECTION 4.6. Full Force and Effect; Limited Amendment. Except as expressly amended hereby, all of the representations, warranties, terms, covenants, conditions and other provisions of the Existing Reimbursement Agreement and the Loan Documents shall remain unchanged and shall continue to be, and shall remain, in full force and effect in accordance with their respective terms. The amendments set forth herein shall be limited precisely as provided for herein to the provisions expressly amended herein and shall not be deemed to be an amendment to, waiver of, consent to or modification of any other term or provision of the Existing Reimbursement Agreement or any other Loan Document or of any transaction or further or future action on the part of any Obligor which would require the consent of the Lenders under the Existing Reimbursement Agreement or any of the Loan Documents.

SECTION 4.7. Representations and Warranties. In order to induce the Lenders to execute and deliver this Amendment, the Account Party hereby represents and warrants to the Lenders, on the date this Amendment becomes effective pursuant to Article III, that both before and after giving effect to this Amendment, all statements set forth in clauses (a) and (b) of Section 5.2.1 of the Reimbursement Agreement are true and correct as of such date, except to the extent that any such statement expressly relates to an earlier date (in which case such statement was true and correct on and as of such earlier date).

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Amendment as of the date first above written.

PPL ENERGY SUPPLY, LLC,
as the Account Party

By:___________________________
Title:

THE BANK OF NOVA SCOTIA,
as the Administrative Agent, as the Issuer and as a Lender

By:___________________________
Name: James R. Trimble
Title: Managing Director

AMENDMENT NO. 4

TO

PPL OFFICERS DEFERRED COMPENSATION PLAN

WHEREAS, PPL Services Corporation ("PPL") has adopted the PPL Officers Deferred Compensation Plan ("Plan") effective July 1, 2000; and

WHEREAS, the Plan was amended and restated effective November 1, 2003, and subsequently amended by Amendment No. 1, 2 and 3; and

WHEREAS, PPL desires to further amend the Plan;

NOW, THEREFORE, the Plan is hereby amended as follows:

I. Effective January 1, 2012, the following sections of Articles 1, 2, 3, and 4 are amended to read:

Article I
Purpose

1.1 The purpose of this Executive Deferred Compensation Plan is to provide certain executive officers and senior management employees of PPL and other Participating Companies a financially advantageous method to defer earned income. This Plan received account balances from the terminated PPL Montana Officers Deferred Compensation Plan and the terminated PPL Global Officers Deferred Compensation Plan, effective November 1, 2003, by reason of the merger of those two terminated Plans into this Plan as of that date.

Article II
Definitions

2.12 **"Plan"** means this Executive Deferred Compensation Plan as set forth herein and as hereafter amended from time to time.

2.16 **" Savings Plan"** means the PPL Deferred Savings Plan, PPL Subsidiary Savings Plan, or PPL Retirement Savings Plan.

Article III
Eligibility

3.1 Any elected officer or other key employee of PPL or of a Participating Company who is designated as eligible in a resolution adopted by the Board of Directors of such Participating Company and is approved for participation in this Plan by the CLC.

As of January 1, 2012, all newly hired salaried employees in Base Pay Salary Groups 1-10 shall be eligible, and as of June 1, 2012, all salaried employees hired prior to January 1, 2012, who are not eligible for participation shall be eligible if they are in or attain Base Pay Salary Groups 1-10. Any salaried employee of PPL or a Participating Company hired after January 1, 2012, who is not in Base Pay Salary Groups 1-10 and whose Cash Compensation and Cash Awards for the calendar year exceed the annual income ceiling of Code Section 401(a)(17) shall be eligible for the make-up contribution of Section 4.12 only.

Article IV
Deferred Cash Compensation and Deferred Cash Awards

4.1 Participant shall have the right to elect to defer all, or a portion, of his Cash Compensation in excess of the estimated minimum annual payroll tax amount that the Participant must legally pay without regard to any deferral election.

4.10 The Account of any Participant hired prior to January 1, 2012, with Deferred Cash Compensation and Deferred Cash Awards for the calendar year shall be increased by a matching contribution amount, equal to 100% of the aggregate Deferred Cash Compensation and Deferred Cash Awards that do not exceed 3% of Cash Compensation, minus the maximum amount of Matching Contributions that could have been made to Participant's Accounts in the PPL Deferred Savings Plan and/or PPL Subsidiary Savings Plan for that calendar year if the Participant had made the maximum employee contributions permitted.

4.11 The Account of any Participant hired on or after January 1, 2012, with Deferred Cash Compensation and Deferred Cash Awards for the calendar year shall be increased by a Matching Contribution and a Fixed Contribution. The Matching Contribution shall be an amount equal to 100% of the aggregate Deferred Cash Compensation and Deferred Cash Awards that do not exceed 6% Cash Compensation, minus the maximum amount of Matching Contributions that could have been made to the Participant’s Accounts in the PPL Retirement Savings Plan for that calendar year if the Participant made the maximum employee contributions permitted. The Fixed Contribution shall be an amount equal to 3% of Cash Compensation minus the amount of the Fixed Contribution made to the Participant’s Accounts in the PPL Retirement Savings Plan for that calendar year.

4.12 For each year a salaried employee is eligible for the make-up contribution described herein, in accordance with Section 3.1, there shall be an Account for that employee to which shall be credited an amount equal to 9% of the excess of the Cash Compensation and Cash Awards for the year over the Code Section 401(a)(17) annual income ceiling. Except for the absence of any deferral by the employee, this Account shall constitute an “Account” under this Plan and subject to all provisions herein.

II. Except as provided for in this Amendment No. 4, all other provisions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment No. 4 is executed this _____ day of ______________________, 2012.

PPL SERVICES CORPORATION

By:_______________________________
James E. Abel
Senior Vice President - Finance
and Treasurer

AMENDMENT NO. 5

TO

PPL SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

WHEREAS, PPL Services Corporation ("PPL") adopted the PPL Supplemental Executive Retirement Plan (the "Plan"), effective July 1, 2000, for certain of its employees; and

WHEREAS, the Plan was amended and restated effective July 1, 2003, and subsequently amended by Amendment No. 1, 2, 3 and 4; and

WHEREAS, PPL desires to further amend the Plan;

NOW, THEREFORE, the Plan is hereby amended as follows:

I. Effective January 1, 2012, the following sections of Articles 2 and 3 are amended to read as follows:

ARTICLE II **DEFINITIONS**

2. **Definitions** .

The following terms shall have the same definitions as they are given in the PPL Retirement Plan:

(a) Actuarial Equivalent.

(b) Affiliated Company or Affiliated Companies.

(c) Board of Directors (herein referred to as "Board").

(d) PPL.

The following terms shall have the following definitions under this PPL Supplemental Executive Retirement Plan:

(e) **"Benefit"** means the Benefit payable under this Plan calculated under Article 4.

(f) **"Cause"** for Participant's Termination of Employment by PPL or an Affiliated Company means

(1) If a "Change in Control," as defined below, has occurred,

(A) the willful and continued failure by Participant to substantially perform Participant's duties with PPL or an Affiliated Company (other than any such failure resulting from Participant's incapacity due to physical or mental illness or, if applicable, any such actual or anticipated failure after the issuance of any “Notice of Termination for Good Reason” by the Participant pursuant to any severance agreement between Participant and PPL or an Affiliated Company) after a written demand for substantial performance is delivered to Participant by the Board, which demand specifically identifies the manner in which the Board believes that Participant has not substantially performed Participant's duties, or

(B) the willful engaging by Participant in conduct which is demonstrably and materially injurious to PPL or an Affiliated Company, monetarily or otherwise.

(C) For purposes of Subsections (A) and (B) of this definition, (A) no act, or failure to act, on Participant's part shall be deemed "willful" unless done, or omitted to be done, by Participant not in good faith and without reasonable belief that Participant's act, or failure to act, was in the best interest of PPL or the Affiliated Company, and (B) in the event of a dispute concerning the application of this provision, no claim by PPL or an Affiliated Company that Cause exists shall be given effect unless PPL or the Affiliated Company establishes to the Board by clear and convincing evidence that Cause exists.

(2) If a "Change in Control," as defined below, has not occurred, "Cause" means:

(i) Participant’s engagement is misconduct which is materially injurious to PPL or an Affiliated Company,

(ii) Participant’s insubordination after clear and lawful direction,

(iii) Participant’s commission of a felony in the performance of duties to PPL or an Affiliated Company,

(iv) Participant’s commission of an act or acts constituting any fraud against or embezzlement from PPL or an Affiliated Company,

(v) Participant’s material breach of any confidentiality or non-competition covenant entered into between the Participant and PPL or an Affiliated Company, or

(vi) Participant’s employment with a competitor while employed by PPL or an Affiliated Company. The determination of the existence of Cause shall be made by the Board in good faith, which determination shall be conclusive for the purpose of this Plan.

(g) “ Change in Control ” shall mean the occurrence of any of the following events:

(i) any Person or Group is or becomes the “beneficial owner” (as defined in rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, as amended) directly or indirectly of more than 30% of the total voting power of the voting stock of PPL Corporation (or any entity which controls PPL Corporation) within a 12-month period, including by way of merger, consolidation, tender or exchange offer, or otherwise;

(ii) a reorganization, recapitalization, merger or consolidation (a “ Corporate Transaction ”) involving PPL Corporation, unless securities representing 70% or more of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of PPL Corporation or the corporation resulting from such Corporate Transaction (or the parent of such corporation) are held subsequent to such transaction by the Person or

Persons who were the "beneficial owners" of the outstanding voting securities entitled to vote generally in the election of directors of PPL Corporation immediately prior to such Corporate Transaction, in substantially the same proportions as their ownership immediately prior to such Corporate Transaction;

(iii) the sale or disposition, in one or a series of related transactions, of all or substantially all, of the assets of PPL Corporation to any Person or Group; or

(iv) during any period of 12 months, individuals who at the beginning of such period constituted the Board (together with any new directors whose election by such Board or whose nomination for election by the stockholders of PPL Corporation was approved by a vote of a majority of the directors of PPL Corporation, then still in office, who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board, then in office.

(h) **"CLC"** shall mean the Corporate Leadership Council of PPL Corporation.

(i) **"Early Retirement Reduction Factor"** means the percentage that appears adjacent to the Participant's age below determined under the appropriate column.

(1) Column (1) shall apply to any Retiree.

(2) Column (2) shall apply to any Terminated Vested Participant.

Percentage of Benefit Received

Benefits Start	(1) **Age When** Retiree	(2) Terminated Vested
60	100	100
59	95	90
58	90	80
57	85	70
56	80	60
55	75	50
54	70	N/A
53	65	N/A
52	60	N/A
51	55	N/A
50	50	N/A
49 or younger	N/A	N/A

(j) **"Good Reason"** shall mean "Good Reason" or such similar concept as defined in any employment, severance, or similar agreement then in effect between the Participant and any of PPL or an Affiliated Company, or, if no such agreement containing a definition of "Good Reason" is then in effect or if such term is not defined therein, "Good Reason" shall mean without the Participant's consent, (i) a change caused by PPL or an Affiliated Company in the Participant's duties and responsibilities which is materially inconsistent with the Participant's position at the applicable entity that is a member of the Affiliated Companies, (ii) a material reduction in the Participant's annual base salary, annual incentive compensation opportunity or other employee benefits (excluding any such reduction that is part of a plan to reduce annual base salaries, annual incentive compensation opportunities or other employee benefits of comparably situated employees of any entity that is a member of the Affiliated Companies generally), or (iii) a relocation of the Participant's current principle place of employment; provided that, notwithstanding anything to the contrary in the foregoing, the Participant shall only have "Good Reason" to terminate employment following the applicable entity's failure to remedy the act which is alleged to constitute "Good Reason" within thirty (30) days following such entity's receipt of written notice from the Participant specifying such act, so long as such notice is provided within sixty (60) days after such event has first occurred.

(k) **"Participant"** means

(1) any elected officer or other key employee of PPL or of a Participating Company who is hired prior to January 1, 2012, is designated as eligible in a resolution adopted by the board of directors of such Participating Company, and is approved for participation in this Plan by the CLC.

(2) any individual formerly described in Paragraph (1) who has not yet had a Termination of Employment, or any individual formerly described in Paragraph (1) who has had a Termination of Employment and is entitled to receive benefits under Article 3 of this Plan. All Participants of this Plan are listed in Appendix A.

(l) **"Participating Company"** means PPL Services Corporation, PPL Electric Utilities Corporation (prior to February 14, 2000, PP&L, Inc.), PPL EnergyPlus, LLC (prior to February 14, 2000, PP&L EnergyPlus Co., LLC), PPL Global, LLC, PPL Montana, LLC and each other Affiliated Company that is designated by the CLC to adopt this Plan by action of its board of directors or managers.

(m) **"Plan"** means this Supplemental Executive Retirement Plan, as amended from time to time.

(n) **"PPL Corporation"** means PPL Corporation (prior to February 14, 2000, PP&L Resources, Inc.).

(o) **"Retiree"** means a Participant who has a Termination of Employment after:

(1) attaining age 55 and completing at least 10 Years of Service, or

(2) attaining age 60.

(p) **"Retirement Plan"** means the PPL Retirement Plan, as amended from time to time.

(q) **"Section 409A"** means Section 409A of the Internal Revenue Code of 1986, as amended, and the final Treasury Regulations issued thereunder.

(r) **"Supplemental Final Average Earnings"** means the following:

(1) Supplemental Final Average Earnings means twelve times the average of a Participant's "compensation" as defined in Paragraphs (A) through (B) below, from PPL and/or an Affiliated Company, for the 60 highest full months in the final 120 (or fewer) full consecutive months during which he is employed by PPL and/or an Affiliated Company. For this purpose, non-consecutive months interrupted by periods in which the Participant receives no "compensation" shall be treated as consecutive. For purposes of this Section, "compensation" shall include the following:

(A) the Participant's base salary from PPL and/or any Affiliated Company prior to any deferrals to the Officers Deferred Compensation Plan or any other nonqualified deferred compensation plan of an Affiliated Company or any Internal Revenue Code section 401(k) plan by which Participant is covered, plus

(B) the value of any cash grants attributable to any month used in the average, awarded to Participant pursuant to the executive incentive awards program initially approved by the Board on October 25, 1989 or any similar program maintained by an Affiliated Company. For the final calendar year of employment, "Compensation" shall include an amount equal to the value of any cash grant that would have been paid for service in the final calendar year of employment, as if 100% of target goals were achieved, but prorated by multiplying by a fraction equal to the number of full calendar months of service completed divided by 12.

(2) For the purposes of determining the Participant's "compensation" under Subsection (1) of this definition, the CLC will determine the amount of any cash grant awarded to the Participant under any incentive awards program, and prorate such amount over the year for which the award was granted.

Notwithstanding the foregoing, if a Participant transfers from a Participating Company to an Affiliated Company that is not a Participating Company after becoming a Participant, earnings with the Affiliated Company after the date of such transfer (or for the duration of each such transfer if the Participant transfers more than once) shall not count in the Participant's Supplemental Final Average Earnings.

(s) **"Terminated Vested Participant"** means a Participant:

(1) who has a Termination of Employment after attaining age 50 but not age 55, and completing at least 10 Years of Service.

(t) **"Termination of Employment"** means the Participant's separation from service (as such term is defined in Section 409A) from PPL and all Affiliated Companies.

(u) **"Years of Service"** means the number of full and partial years used to calculate Participant's accrued benefit under the

Retirement Plan, or which would be used to calculate an accrued benefit if the Participant were eligible to participate in the Retirement Plan but (1) excluding years prior to Participant's attainment of age 30, and (2) including service with any Affiliated Company prior to the Participant's most recently becoming a Participant eligible under this Plan, provided such service would otherwise be counted under the Retirement Plan, but excluding any such service with an Affiliated Company performed before the Affiliated Company became an Affiliated Company, and (3) including Supplemental Years of Service granted to the Participant as set forth in Appendix A. In the event of a "Change in Control," and a Termination of Employment by PPL or an Affiliated Company not for Cause, or a Termination of Employment for Good Reason, all Supplemental Years of Service granted to the Participant as set forth in Appendix A shall become Years of Service and Years of Vesting Service under the Plan, on a pro rata basis, as follows:

(1) For Supplemental Years of Service requiring a specified number of Years of Service, by multiplying the maximum number of Supplemental Years of Service by actual Years of Service divided by the specified number of Years of Service otherwise required.

(2) For Supplemental Years of Service requiring attainment of a specified age, by multiplying the maximum number of Supplemental Years of Service by actual Years of Service divided by the number of Years of Service that would have been attained if the Participant worked to the specified age.

(v) **"Year(s) of Vesting Service"** means (1) the number of full years used to calculate Participant's vested interest in his accrued benefit under the Retirement Plan, or which would be used if eligible under the Retirement Plan, but excluding any such service with an Affiliated Company performed before the Affiliated Company became an Affiliated Company, and (2) the number of Supplemental Years of Service, if any, that may have been granted to the Participant, as set forth in Appendix A. In the event of a "Change in Control," and a Termination of Employment by PPL or an Affiliated Company not for Cause, or a Termination of Employment for Good Reason, all Supplemental Years of Service granted to the Participant as set forth in Appendix A shall become Years of Service and Years of Vesting Service under the Plan, on a pro rata basis, as follows:

(1) For Supplemental Years of Service requiring a specified number of Years of Service, by multiplying the maximum number of Supplemental Years of Service by actual Years of Vesting Service divided by the specified number of Years of Service otherwise required.

(2) For Supplemental Years of Service requiring attainment of a specified age, by multiplying the maximum number of Supplemental Years of Service by actual Years of Vesting Service divided by the number of Years of Vesting Service that would have been attained if the Participant worked to the specified age.

ARTICLE III

BENEFIT ELIGIBILITY

3. **Benefit Eligibility** .

(c) Notwithstanding Section 3(a), in the event of a "Change in Control," all Participants who have a Termination of Employment by PPL or an Affiliated Company not for Cause, or who have a Termination of Employment for Good Reason, shall be eligible for a Benefit.

II. Except as provided for in this Amendment No. 5, all other provisions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment No. 5 is executed this ____ day of __________________, 2012.

PPL SERVICES CORPORATION

By:______________________________
James E. Abel
Senior Vice President - Finance
and Treasurer

Exhibit 12(a)

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	2011	2010	2009	2008	2007
Earnings, as defined:					
Income from Continuing Operations Before Income Taxes	**$ 2,201**	$ 1,239	$ 538	$ 1,273	$ 1,230
Adjustment to reflect earnings from equity method investments on a cash basis	**1**	7	1		2
	2,202	1,246	539	1,273	1,232
Total fixed charges as below	**1,022**	698	513	568	609
Less:					
Capitalized interest	**51**	30	43	57	55
Preferred security distributions of subsidiaries on a pre-tax basis	**23**	21	24	27	23
Interest expense and fixed charges related to discontinued operations	**3**	12	15	16	39
Total fixed charges included in Income from Continuing Operations Before Income Taxes	**945**	635	431	468	492
Total earnings	**$ 3,147**	$ 1,881	$ 970	$ 1,741	$ 1,724
Fixed charges, as defined:					
Interest charges (a)	**$ 955**	$ 637	$ 446	$ 518	$ 565
Estimated interest component of operating rentals	**44**	39	42	22	21
Preferred securities distributions of subsidiaries on a pre-tax basis	**23**	21	24	27	23
Fixed charges of majority-owned share of 50% or less-owned persons		1	1	1	
Total fixed charges (b)	**$ 1,022**	$ 698	$ 513	$ 568	$ 609
Ratio of earnings to fixed charges	**3.1**	2.7	1.9	3.1	2.8
Ratio of earnings to combined fixed charges and preferred stock dividends (c)	**3.1**	2.7	1.9	3.1	2.8

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

(c) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

Exhibit 12(b)

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	2011	2010	2009	2008	2007
Earnings, as defined:					
Income (Loss) from Continuing Operations Before Income Taxes	**$ 1,212**	$ 881	$ (13)	$ 671	$ 785
Adjustments to reflect earnings from equity method investments on a cash basis	**1**	7	1		2
	1,213	888	(12)	671	787
Total fixed charges as below	**259**	426	364	390	388
Less:					
Capitalized interest	**47**	33	44	57	54
Interest expense and fixed charges related to discontinued operations	**3**	147	102	157	217
Total fixed charges included in Income from Continuing Operations Before Income Taxes	**209**	246	218	176	117
Total earnings	**$ 1,422**	$ 1,134	$ 206	$ 847	$ 904
Fixed charges, as defined:					
Interest charges (a)	**$ 223**	$ 387	$ 321	$ 374	$ 374
Estimated interest component of operating rentals	**36**	38	42	15	14
Fixed charges of majority-owned share of 50% or less-owned persons		1	1	1	
Total fixed charges (b)	**$ 259**	$ 426	$ 364	$ 390	$ 388
Ratio of earnings to fixed charges	**5.5**	2.7	0.6	2.2	2.3

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
(b) Interest on unrecognized tax benefits is not included in fixed charges.

Exhibit 12(c)

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	2011	2010	2009	2008	2007
Earnings, as defined:					
Income Before Income Taxes	$ 257	$ 192	$ 221	$ 278	$ 246
Total fixed charges as below	105	102	121	114	143
Total earnings	$ 362	$ 294	$ 342	$ 392	$ 389
Fixed charges, as defined:					
Interest charges (a)	$ 102	$ 101	$ 120	$ 113	$ 139
Estimated interest component of operating rentals	3	1	1	1	4
Total fixed charges (b)	$ 105	$ 102	$ 121	$ 114	$ 143
Ratio of earnings to fixed charges	3.4	2.9	2.8	3.4	2.7
Preferred stock dividend requirements on a pre-tax basis	$ 21	$ 23	$ 28	$ 28	$ 27
Fixed charges, as above	105	102	121	114	143
Total fixed charges and preferred stock dividends	$ 126	$ 125	$ 149	$ 142	$ 170
Ratio of earnings to combined fixed charges and preferred stock dividends	2.9	2.4	2.3	2.8	2.3

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

Exhibit 12(d)

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES

(Millions of Dollars)

	Successor		Predecessor				
	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009	2008	2007	2006
Earnings, as defined:							
Income from Continuing Operations Before Income Taxes	**$ 419**	$ 70	$ 300	$ (1,235)	$ (1,536)	$ 332	$ 310
Adjustment to reflect earnings from equity method investments on a cash basis	**(1)**		(4)	11		(5)	(2)
Loss on impairment of goodwill				1,493	1,806		
Mark to market impact of derivative instruments		2	(20)	(19)	34		
	418	72	276	250	304	327	308
Total fixed charges as below	**153**	25	158	186	199	170	161
Total earnings	**$ 571**	$ 97	$ 434	$ 436	$ 503	$ 497	$ 469
Fixed charges, as defined:							
Interest charges (a)	**$ 147**	$ 24	$ 153	$ 176	$ 184	$ 155	$ 143
Estimated interest component of operating rentals	**6**	1	5	5	5	4	4
Estimated discontinued operations interest component of rental expense				5	10	10	10
Preferred stock dividends						1	4
Total fixed charges	**$ 153**	$ 25	$ 158	$ 186	$ 199	$ 170	$ 161
Ratio of earnings to fixed charges	**3.7**	3.9	2.7	2.3	2.5	2.9	2.9

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

Exhibit 12(e)

LOUISVILLE GAS AND ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES

(Millions of Dollars)

	Successor		Predecessor				
	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009	2008	2007	2006
Earnings, as defined:							
Income Before Income Taxes	**$ 195**	$ 29	$ 167	$ 142	$ 131	$ 179	$ 179
Mark to market impact of derivative instruments		1	(20)	(20)	35		
	195	30	147	122	166	179	179
Total fixed charges as below	**46**	8	40	46	60	53	47
Total earnings	**$ 241**	$ 38	$ 187	$ 168	$ 226	$ 232	$ 226
Fixed charges, as defined:							
Interest charges (a)	**$ 44**	$ 8	$ 38	$ 44	$ 58	$ 50	$ 41
Estimated interest component of operating rentals	**2**		2	2	2	2	2
Preferred stock dividends						1	4
Total fixed charges	**$ 46**	$ 8	$ 40	$ 46	$ 60	$ 53	$ 47
Ratio of earnings to fixed charges	**5.2**	4.8	4.7	3.7	3.8	4.4	4.8

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

Exhibit 12(f)

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES

(Millions of Dollars)

	Successor		Predecessor				
	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009	2008	2007	2006
Earnings, as defined:							
Income Before Income Taxes	**$ 282**	$ 55	$ 218	$ 200	$ 226	$ 244	$ 226
Adjustment to reflect earnings from equity method investments on a cash basis	**(1)**		(4)	11		(5)	(2)
Mark to market impact of derivative instruments				1	(1)		
	281	55	214	212	225	239	224
Total fixed charges as below	**73**	11	71	79	77	59	41
Total earnings	**$ 354**	$ 66	$ 285	$ 291	$ 302	$ 298	$ 265
Fixed charges, as defined:							
Interest charges (a)	**$ 70**	$ 10	$ 69	$ 76	$ 74	$ 57	$ 39
Estimated interest component of operating rentals	**3**	1	2	3	3	2	2
Total fixed charges	**$ 73**	$ 11	$ 71	$ 79	$ 77	$ 59	$ 41
Ratio of earnings to fixed charges	**4.8**	6.0	4.0	3.7	3.9	5.1	6.5

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

PPL Corporation **Exhibit 21**
Subsidiaries of the Registrant
At December 31, 2011

Company Name Business Conducted under Same Name	State or Jurisdiction of Incorporation/Formation
LG&E and KU Energy LLC	Kentucky
Louisville Gas and Electric Company	Kentucky
Kentucky Utilities Company	Kentucky and Virginia
PPL Electric Utilities Corporation	Pennsylvania
PPL Energy Funding Corporation	Pennsylvania
PPL Energy Supply, LLC	Delaware
PPL Investment Corporation	Delaware
PPL EnergyPlus, LLC	Pennsylvania
PPL Generation, LLC	Delaware
PPL Montour, LLC	Delaware
PPL Susquehanna, LLC	Delaware
PPL Holtwood, LLC	Delaware
PPL Montana Holdings, LLC	Delaware
PPL Montana, LLC	Delaware
PPL Global, LLC	Delaware
PMDC International Holdings, Inc.	Delaware
PPL UK Holdings, LLC	Delaware
PPL UK Resources Limited	United Kingdom
PPL WW Holdings Limited	United Kingdom
Western Power Distribution LLP	United Kingdom
Western Power Distribution (South West) plc	United Kingdom
Western Power Distribution (South Wales) plc	United Kingdom
PPL UK Investments Limited	United Kingdom
PPL WEM Holdings plc	United Kingdom

Exhibit 23(a)

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in PPL Corporation's Registration Statement on Form S-3 No. 333-158200, the Registration Statement on Form S-3D No 333-161826, and the Registration Statements on Form S-8 (Nos. 333-02003, 333-112453, 333-110372, 333-95967, 333-144047, and 333-175680) of our reports dated February 28, 2012, with respect to the consolidated financial statements and schedule of PPL Corporation and the effectiveness of internal control over financial reporting of PPL Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2011.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 28, 2012

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in PPL Energy Supply, LLC's Registration Statement on Form S-3 No. 333-158200-02 of our report dated February 28, 2012, with respect to the consolidated financial statements of PPL Energy Supply, LLC, included in this Annual Report (Form 10-K) for the year ended December 31, 2011.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 28, 2012

Exhibit 23(c)

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in PPL Electric Utilities Corporation's Registration Statement on Form S-3 No. 333-158200-01 of our report dated February 28, 2012, with respect to the consolidated financial statements of PPL Electric Utilities Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2011.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 28, 2012

Exhibit 23(d)

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in PPL Corporation's Registration Statement on Form S-3 No. 333-158200, the Registration Statement on Form S-3D No 333-161826, and the Registration Statements on Form S-8 (Nos. 333-02003, 333-112453, 333-110372, 333-95967, 333-144047, and 333-175680) of our reports dated February 25, 2011, relating to the consolidated financial statements and financial statement schedule of LG&E and KU Energy LLC, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Louisville, Kentucky
February 28, 2012

PPL CORPORATION

2011 ANNUAL REPORT
TO THE SECURITIES AND EXCHANGE COMMISSION
ON FORM 10-K

POWER OF ATTORNEY

The undersigned directors of PPL Corporation, a Pennsylvania corporation, that is to file with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, its Annual Report on Form 10-K for the year ended December 31, 2011 ("Form 10-K Report"), do hereby appoint each of William H. Spence, Paul A. Farr, Robert J. Grey and Michael A. McGrail, and each of them, their true and lawful attorney, with power to act without the other and with full power of substitution and resubstitution, to execute for them and in their names the Form 10-K Report and any and all amendments thereto, whether said amendments add to, delete from or otherwise alter the Form 10-K Report, or add or withdraw any exhibits or schedules to be filed therewith and any and all instruments in connection therewith. The undersigned hereby grant to each said attorney full power and authority to do and perform in the name of and on behalf of the undersigned, and in any and all capacities, any act and thing whatsoever required or necessary to be done in and about the premises, as fully and to all intents and purposes as the undersigned might do, hereby ratifying and approving the acts of each of the said attorneys.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands this day of February, 2012.

/s/ Frederick M. Bernthal	/s/ Venkata Rajamannar Madabhushi
Frederick M. Bernthal	Venkata Rajamannar Madabhushi
/s/ John W. Conway	/s/ James H. Miller
John W. Conway	James H. Miller
/s/ Steven G. Elliott	/s/ Craig A. Rogerson
Steven G. Elliott	Craig A. Rogerson
/s/ Louise K. Goeser	/s/ William H. Spence
Louise K. Goeser	William H. Spence
/s/ Stuart E. Graham	/s/ Natica von Althann
Stuart E. Graham	Natica von Althann
/s/ Stuart Heydt	/s/ Keith H. Williamson
Stuart Heydt	Keith H. Williamson

Exhibit 31(a)

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Corporation (the "registrant") for the year ended December 31, 2011;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2012

/s/ William H. Spence
William H. Spence
President and Chief Executive Officer
PPL Corporation

Exhibit 31(b)

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Corporation (the "registrant") for the year ended December 31, 2011;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2012

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President and Chief Financial Officer
PPL Corporation

Exhibit 31(c)

CERTIFICATION

I, JAMES H. MILLER, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Energy Supply, LLC (the "registrant") for the year ended December 31, 2011;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2012

/s/ James H. Miller
James H. Miller
President
PPL Energy Supply, LLC

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Energy Supply, LLC (the "registrant") for the year ended December 31, 2011;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2012

/s/ Paul A. Farr

Paul A. Farr
Executive Vice President
PPL Energy Supply, LLC

Exhibit 31(e)

CERTIFICATION

I, DAVID G. DECAMPLI, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Electric Utilities Corporation (the "registrant") for the year ended December 31, 2011;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2012

/s/ David G. DeCampli
David G. DeCampli
President
PPL Electric Utilities Corporation

Exhibit 31(f)

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Electric Utilities Corporation (the "registrant") for the year ended December 31, 2011;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2012

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Chief Accounting Officer
PPL Electric Utilities Corporation

Exhibit 31(g)

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this annual report on Form 10-K of LG&E and KU Energy LLC (the "registrant") for the year ended December 31, 2011;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2012

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman, President and Chief Executive Officer
LG&E and KU Energy LLC

Exhibit 31(h)

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of LG&E and KU Energy LLC (the "registrant") for the year ended December 31, 2011;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2012

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
LG&E and KU Energy LLC

Exhibit 31(i)

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company (the "registrant") for the year ended December 31, 2011;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2012

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company (the "registrant") for the year ended December 31, 2011;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2012

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
Louisville Gas and Electric Company

Exhibit 31(k)

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this annual report on Form 10-K of Kentucky Utilities Company (the "registrant") for the year ended December 31, 2011;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2012

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman, President and Chief Executive Officer
Kentucky Utilities Company

Exhibit 31(l)

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of Kentucky Utilities Company (the "registrant") for the year ended December 31, 2011;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2012

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
Kentucky Utilities Company

Exhibit 32(a)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2011

In connection with the annual report on Form 10-K of PPL Corporation (the "Company") for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2012

/s/ William H. Spence
William H. Spence
President and Chief Executive Officer
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(b)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2011

In connection with the annual report on Form 10-K of PPL Corporation (the "Company") for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2012

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President and Chief Financial Officer
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(c)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2011

In connection with the annual report on Form 10-K of PPL Energy Supply, LLC (the "Company") for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2012

/s/ James H. Miller
James H. Miller
President
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(d)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2011

In connection with the annual report on Form 10-K of PPL Energy Supply, LLC (the "Company") for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2012

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(e)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2011

In connection with the annual report on Form 10-K of PPL Electric Utilities Corporation (the "Company") for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2012

/s/ David G. DeCampli
David G. DeCampli
President
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(f)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2011

In connection with the annual report on Form 10-K of PPL Electric Utilities Corporation (the "Company") for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2012

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Chief Accounting Officer
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(g)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2011

In connection with the annual report on Form 10-K of LG&E and KU Energy LLC (the "Company") for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2012

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(h)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2011

In connection with the annual report on Form 10-K of LG&E and KU Energy LLC (the "Company") for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2012

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(i)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2011

In connection with the annual report on Form 10-K of Louisville Gas and Electric Company (the "Company") for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2012

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(j)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2011

In connection with the annual report on Form 10-K of Louisville Gas and Electric Company (the "Company") for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2012

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(k)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2011

In connection with the annual report on Form 10-K of Kentucky Utilities Company (the "Company") for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2012

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(l)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2011

In connection with the annual report on Form 10-K of Kentucky Utilities Company (the "Company") for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2012

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Kentucky Utilities Company

Financial Statements and Additional Information

As of December 31, 2010 and 2009 and

for the years ended December 31, 2010, 2009 and 2008

Index of Abbreviations

AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CATR	Clean Air Transport Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
CMRG	Carbon Management Research Group
Company	Kentucky Utilities Company
CT	Combustion Turbine
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EEI	Electric Energy, Inc.
EKPC	East Kentucky Power Cooperative, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC and Subsidiaries
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
GAAP	U.S. Generally Accepted Accounting Principles
GAC	Group Annuity Contract
GHG	Greenhouse Gas
Gwh	Gigawatt hours or one thousand Mwh
IBEW	International Brotherhood of Electrical Workers
IMEA	Illinois Municipal Electric Agency
IMPA	Indiana Municipal Power Agency
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
kWh	Kilowatt hours
LG&E	Louisville Gas and Electric Company
LIBOR	London Interbank Offered Rate
LKE	LG&E and KU Energy LLC and Subsidiaries (formerly E.ON U.S. LLC and Subsidiaries)
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British thermal units

Index of Abbreviations

Moody's	Moody's Investor Services, Inc.
MVA	Megavolt-ampere
Mw	Megawatts
Mwh	Megawatt hours
NAAQS	National Ambient Air Quality Standards
NERC	North American Electric Reliability Corporation
NO_2	Nitrogen Dioxide
NOV	Notice of Violation
NOx	Nitrogen Oxide
OATT	Open Access Transmission Tariff
OMU	Owensboro Municipal Utilities
OVEC	Ohio Valley Electric Corporation
PPL	PPL Corporation
Predecessor	The Company during the time period prior to November 1, 2010
PUHCA 2005	Public Utility Holding Company Act of 2005
RSG	Revenue Sufficiency Guarantee
S&P	Standard & Poor's Rating Service
SCR	Selective Catalytic Reduction
SERC	SERC Reliability Corporation
Servco	LG&E and KU Services Company (formerly E.ON U.S. Services Inc.)
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
SPP	Southwest Power Pool, Inc
Successor	The Company during the time period after October 31, 2010
TC1	Trimble County Unit 1
TC2	Trimble County Unit 2
TVA	Tennessee Valley Authority
Utilities	KU and LG&E
VDT	Value Delivery Team Process
Virginia Commission	Virginia State Corporation Commission

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Forward-Looking Information

KU uses forward-looking statements in this annual report. Statements that are not historical facts are forward-looking statements, and are based on beliefs and assumptions of management, and on information currently available to management. Forward-looking statements include statements preceded by, followed by or using such words as “believe,” “expect,” “anticipate,” “plan,” “estimate” or similar expressions. Such statements speak only as of the date they are made, and the Company undertakes no obligation to update publicly any of them in light of new information or future events. Actual results may materially differ from those implied by forward-looking statements due to known and unknown risks and uncertainties. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- fuel supply availability;
- weather conditions affecting generation production, customer energy use and operating costs;
- operation, availability and operating costs of existing generation facilities;
- transmission and distribution system conditions and operating costs;
- collective labor bargaining negotiations;
- the outcome of litigation against the Company;
- potential effects of threatened or actual terrorism or war or other hostilities;
- commitments and liabilities;
- market demand and prices for energy, capacity, transmission services, emission allowances and delivered fuel;
- competition in retail and wholesale power markets;
- liquidity of wholesale power markets;
- defaults by counterparties under the Company’s energy, fuel or other power product contracts;
- market prices of commodity inputs for ongoing capital expenditures;
- capital market conditions, including the availability of capital or credit, changes in interest rates, and decisions regarding capital structure;
- the fair value of debt and equity securities and the impact on defined benefit costs and resultant cash funding requirements for defined benefit plans;
- interest rates and their effect on pension and retiree medical liabilities;
- volatility in or the impact of other changes in financial or commodity markets and economic conditions;
- profitability and liquidity, including access to capital markets and credit facilities;
- new accounting requirements or new interpretations or applications of existing requirements;
- securities and credit ratings;
- current and future environmental conditions and requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
- political, regulatory or economic conditions in states, regions or countries where the Company conducts business;
- receipt of necessary governmental permits, approvals and rate relief;
- new state or federal legislation, including new tax, environmental, health care or pension-related legislation;
- state or federal regulatory developments;
- the impact of any state or federal investigations applicable to the Company and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;

- performance of new ventures; and
- asset acquisitions and dispositions.

In light of these risks and uncertainties, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than the Company has described. For additional details regarding these and other risks and uncertainties, see Risk Factors.

Business

General

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU provides electric service to approximately 514,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in five counties in southwestern Virginia and less than ten customers in Tennessee. KU's service area covers approximately 6,600 noncontiguous square miles. Approximately 98% of the electricity generated by KU is produced by its coal-fired electric generating stations. The remainder is generated by natural gas and oil fueled CTs and a hydroelectric power plant. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

On November 1, 2010, KU became an indirect wholly owned subsidiary of PPL, when PPL acquired all of the outstanding limited liability company interests in the Company's direct parent, LKE, from E.ON US Investments Corp. LKE, a Kentucky limited liability company, also owns the affiliate, LG&E, a regulated utility engaged in the generation, transmission, distribution and sale of electric energy and distribution and sale of natural gas in Kentucky. Following the acquisition, the Company's business has not changed. KU and LG&E are continuing as subsidiaries of LKE, which is now an intermediary holding company in the PPL group of companies.

Headquartered in Allentown, Pennsylvania, PPL is an energy and utility holding company that was incorporated in 1994. Through its subsidiaries, PPL owns or controls about 19,000 megawatts of generating capacity in the U.S., sells energy in key U.S. markets and delivers electricity and natural gas to about 5.3 million customers in the U.S. and the U.K.

Predecessor and Successor

KU's historical financial results are presented using "Predecessor" or "Successor" to designate the periods before or after PPL's acquisition of LKE. Predecessor covers the time period prior to November 1, 2010. Successor covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL accounting policies and the cost basis of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor period are not comparable to the Predecessor period.

Despite the separate presentation, the core operations of the Company have not changed. See Note 1, Summary of Significant Accounting Policies, for the major differences in Predecessor and Successor accounting policies. See Note 2, Acquisition by PPL, for information regarding the acquisition and the purchase accounting adjustments.

Operations

Dollars are in millions unless otherwise noted.

The sources of operating revenues and volumes of sales for the following periods in 2010, 2009 and 2008 were as follows:

	Successor		Predecessor					
	November 1, 2010 through December 31, 2010		January 1, 2010 through October 31, 2010		Year Ended December 31, 2009		Year Ended December 31, 2008	
	Revenues	Volumes (Gwh)	Revenues	Volumes (Gwh)	Revenues	Volumes (Gwh)	Revenues	Volumes (Gwh)
Residential	$ 106	1,394	$ 440	5,788	$ 480	6,594	$ 462	6,803
Industrial and commercial	117	1,876	588	9,152	637	10,171	636	10,709
Municipals	15	326	88	1,676	91	1,848	92	1,971
Other retail	20	273	114	1,453	118	1,647	108	1,707
Wholesale	5	68	18	376	29	660	107	2,894
	$ 263	3,937	$ 1,248	18,445	$ 1,355	20,920	$ 1,405	24,084

KU's peak load in 2010 was 4,517 Mw on December 15, 2010, when the temperature dropped to a low of 3 degrees Fahrenheit in Lexington. KU's all time peak load was 4,640 Mw and occurred on January 16, 2009, when the temperature dropped to a low of -2 degrees Fahrenheit in Lexington.

The Company's power generating system includes coal-fired steam generating stations, with natural gas and oil fueled CTs which supplement the system during peak or emergency periods. As of December 31, 2010, KU's system capacity was:

Fuel/Plant	Total Summer Mw Capacity (a)	% Ownership	Ownership or Lease Interest in Mw	Location
Coal (steam)				
Ghent	1,918	100.00	1,918	Carroll County, KY
E.W. Brown	684	100.00	684	Mercer County, KY
Green River	163	100.00	163	Muhlenberg County, KY
Tyrone	71	100.00	71	Woodford County, KY
OVEC - Clifty Creek (b)	1,304	2.50	33	Jefferson County, IN
OVEC - Kyger Creek (b)	1,086	2.50	27	Gallia County, OH
Total steam	5,226		2,896	
Natural gas/oil (combustion turbines)				
E.W. Brown Units 8-11	480	100.00	480	Mercer County, KY
Trimble County Units 7-10 (c)	640	63.00	403	Trimble County, KY
Trimble County Units 5-6 (c)	320	71.00	227	Trimble County, KY
E.W. Brown Units 6-7 (c)	338	62.00	214	Mercer County, KY
Paddy's Run (c)	158	47.00	74	Jefferson County, KY
E.W. Brown Unit 5	129	47.00	63	Mercer County, KY
Haefling	36	100.00	36	Fayette County, KY
Total combustion turbines	2,101		1,497	

Fuel/Plant	Total Summer Mw Capacity (a)	% Ownership	Ownership or Lease Interest in Mw	Location
Hydro				
Dix Dam Hydroelectric Station	24	100.00	24	Mercer County, KY
Total hydro	24		24	
Total system capacity	7,351		4,417	

(a) The capacity of generation units is based on a number of factors, including the operating experience and physical conditions of the units and may be revised periodically to reflect changed circumstances.
(b) KU is contractually entitled to 2.50% of OVEC's output based on a power purchase agreement which is comprised of annual minimum debt service payments, as well as contractually-required reimbursement of plant operating, maintenance and other expenses. OVEC's capacity is shown at unit nameplate ratings.
(c) Units are jointly owned with LG&E. See Note 14, Jointly Owned Electric Utility Plant, for further information.

With limited exceptions the Company took care, custody and control of TC2 on January 22, 2011, and has dispatched the unit to meet customer demand since that date. KU and the contractor agreed to a further amendment of the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. Unit 2 is coal-fired and has a capacity of 760 Mw, of which KU's share is 462 Mw.

On December 31, 2010, KU's transmission system included 132 substations (54 of which are shared with the distribution system) with transformer capacity of approximately 13,136 MVA and approximately 4,076 miles of lines. The distribution system included 480 substations (54 of which are shared with the transmission system) with transformer capacity of approximately 7,044 MVA, and approximately 14,123 miles of overhead lines and 2,221 miles of underground conduit.

KU had a power supply contract with OMU that was terminated by OMU in May 2010. KU owns 20% of EEI's common stock and 2.5% of OVEC's common stock. KU has power purchase rights for its portion of OVEC's output. Additional information regarding this relationship is provided in Note 1, Summary of Significant Accounting Policies and Note 13, Commitments and Contingencies.

KU contracts with the TVA to act as KU's transmission reliability coordinator and SPP to function as KU's independent transmission operator, pursuant to FERC requirements. The TVA and SPP contracts provide services through August 31, 2011 and August 31, 2012, respectively. See Note 3, Rates and Regulatory Matters, for further information.

KU and LG&E jointly dispatch their generation units with the lowest cost generation used to serve their retail native load. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail native load and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are recorded as intercompany wholesale sales and purchases and are recorded by each company at a price equal to the seller's fuel cost. Savings realized from purchasing electricity intercompany instead of generating from their own higher costs units or purchasing from the market are shared equally between the Utilities. The volume of energy each company has to sell to the other is dependent on its native load needs and its available generation.

Substantially all of KU's real and tangible property located in Kentucky is subject to a mortgage lien, securing its first mortgage bonds. See Note 11, Long-Term Debt, for further information.

<u>Rates and Regulations</u>

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

The Company is subject to the jurisdiction of the FERC, Kentucky Commission, Virginia Commission and the Tennessee Regulatory Authority in virtually all matters related to electric utility regulation, and as such, its accounting is subject to the regulated operations guidance of the FASB ASC. Given its competitive position in the marketplace and the status of regulation in Kentucky, Virginia and Tennessee there are no plans or intentions to discontinue the application of the regulated operations guidance of the FASB ASC.

On April 28, 2010, E.ON U.S. announced that a Purchase and Sale Agreement (the "Agreement") had been entered into among E.ON US Investments Corp., PPL and E.ON.

The transaction was subject to customary closing conditions, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Act, receipt of required regulatory approvals (including the FERC and state regulators in Kentucky, Virginia and Tennessee) and the absence of injunctions or restraints imposed by governmental entities.

Change of control and financing-related applications were filed on May 28, 2010, with the Kentucky Commission and on June 15, 2010, with the Virginia Commission and the Tennessee Regulatory Authority. An application with the FERC was filed on June 28, 2010. During the second quarter of 2010, a number of parties were granted intervenor status in the Kentucky Commission proceedings and data request filings and responses occurred. Early termination of the Hart-Scott-Rodino waiting period was received on August 2, 2010.

A hearing in the Kentucky Commission proceedings was held on September 8, 2010, at which time a unanimous settlement agreement was presented. In the settlement, KU committed that no base rate increases would take effect before January 1, 2013. The KU rate increases that took effect on August 1, 2010, were not impacted by the settlement. Under the terms of the settlement, KU retains the right to seek approval for the deferral of "extraordinary and uncontrollable costs." Interim rate adjustments will continue to be permissible during that period for existing fuel, environmental and demand-side management cost trackers. The agreement also substitutes an acquisition savings shared deferral mechanism for the requirement that the Company file a synergies plan with the Kentucky Commission. This mechanism, which will be in place until the earlier of five years or the first day of the year in which a base rate increase becomes effective, permits KU to earn up to a 10.75% return on equity. Any earnings above a 10.75% return on equity will be shared with customers on a 50%/50% basis. On September 30, 2010, the Kentucky Commission issued an Order approving the transfer of ownership of KU via the acquisition of E.ON U.S. by PPL, incorporating the terms of the submitted settlement. On October 19, 2010 and October 21, 2010, respectively, Orders approving the acquisition of E.ON U.S. by PPL were received from the Virginia Commission and the Tennessee Regulatory Authority. The Commissions' Orders contained a number of other commitments with regard to operations, workforce, community involvement and other matters.

In mid-September 2010, KU and other applicants in the FERC change of control proceeding reached an agreement with the protesters, whereby such protests have been withdrawn. The agreement, which was filed for consideration with the FERC, includes various conditional commitments, such as a continuation of certain existing undertakings with protesters in prior cases, an agreement not to terminate certain KU municipal customer contracts prior to January 2017, an exclusion of any transaction-related costs from wholesale energy and tariff customer rates to the extent that KU agreed not to seek the same transaction-related cost from retail customers and agreements to coordinate with protesters in certain open or ongoing matters. A FERC Order approving the transaction was received on October 26, 2010, and the transaction was completed on November 1, 2010.

In January 2010, KU filed an application with the Kentucky Commission requesting an increase in electric base rates of approximately 12%, or $135 million annually. In June 2010, KU and all of the intervenors, except the AG, agreed to a stipulation providing for an increase in electric base rates of $98 million annually and filed a request with the Kentucky Commission to approve such settlement. An Order in the proceeding was issued in July 2010, approving all the provisions in the stipulation, including a return on equity range of 9.75-10.75%. The new rates became effective on August 1, 2010.

In June 2009, KU filed an application with the Virginia Commission requesting an increase in electric base rates for its Virginia jurisdictional customers in an amount of $12 million annually or approximately 21%. The proposed increase reflected a proposed rate of return on rate base of 8.586% based on a return on equity of 12%. As permitted, pursuant to a Virginia Commission Order, KU elected to implement the proposed rates effective November 1, 2009, on an interim basis. During December 2009, KU and the Virginia Commission Staff agreed to a Stipulation and Recommendation authorizing a base rate revenue increase of $11 million annually and a return on rate base of 7.846% based on a 10.5% return on common equity. In March 2010, the Virginia Commission issued an Order approving the stipulation, with the increased rates to be put into effect as of April 1, 2010. As part of the stipulation, KU refunded approximately $1 million in interim rate amounts in excess of the ultimate approved rates.

In January 2009, a significant ice storm passed through KU's service area causing approximately 199,000 customer outages, followed closely by a severe wind storm in February 2009 causing approximately 44,000 customer outages. 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 $62 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 $62 million based on its actual costs for storm damages and service restoration due to the January and February 2009 storms. In September 2009, the Company established a regulatory asset of $57 million for actual costs incurred. KU received approval in its 2010 base rate case to recover this asset over a ten year period with recovery beginning August 1, 2010.

In September 2008, high winds from the remnants of Hurricane Ike passed through the service area causing significant outages and system damage. In October 2008, KU filed an application with the Kentucky Commission requesting approval to establish a regulatory asset and defer for future recovery approximately $3 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 $3 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 $2 million for actual costs incurred. The Company received approval in its 2010 base rate case to recover this asset over a ten year period beginning August 1, 2010.

In September 2008, KU filed an application with the FERC for increases in electric base rates applicable to wholesale power sales contracts or interchange agreements involving, collectively, twelve Kentucky municipalities. The application requested a shift from an all-in stated unit charge rates to an unbundled formula rate, including an annual adjustment mechanism. In May 2009, the FERC issued an Order approving a settlement among the parties in the case, incorporating increases of approximately 3% from prior rates and a return on equity of 11%. In May 2010, KU submitted to the FERC the proposed current annual adjustments to the formula rates, which incorporated certain proposed increases. Updated rates, including certain further adjustments from a review process involving wholesale requirements customers, became effective as of July 1, 2010.

By mutual agreement, the parties' settlement of the 2008 application left outstanding the issue of whether KU must allocate to the municipal customers a portion of renewable resources it may be required to procure on behalf of its retail ratepayers. An Order was issued by the FERC in July 2010, indicating that KU is not required to allocate a portion of any renewable resources to the twelve municipalities, thus resolving the remaining issue.

In July 2008, KU filed an application with the Kentucky Commission requesting an increase in electric base rates. In January 2009, KU, the AG, the KIUC and all other parties to the rate case filed a settlement agreement with the Kentucky Commission, under which KU's electric base rates decreased by $9 million annually. An Order approving the settlement agreement was received in February 2009. The new rates were implemented effective February 6, 2009.

For a further discussion of regulatory matters, see Note 3, Rates and Regulatory Matters.

Coal Supply

Coal-fired generating units provided approximately 98% of KU's net kWh generation for 2010. The remaining net generation was provided by natural gas and oil fueled CTs and a hydroelectric plant. Coal is expected to be the predominant fuel used by KU in the foreseeable future, with natural gas and oil being used for peaking capacity and flame stabilization in coal-fired boilers or in emergencies. The Company has no nuclear generating units and has no plans to build any in the foreseeable future.

Fuel inventory is maintained at levels estimated to be necessary to avoid operational disruptions at the coal-fired generating units. Reliability of coal deliveries can be affected periodically by a number of factors including fluctuations in demand, coal mine production issues and other supplier or transporter operating difficulties.

KU has entered into coal supply agreements with various suppliers for coal deliveries for 2011 and beyond and normally augments its coal supply agreements with spot market purchases. The Company has a coal inventory policy which it believes provides adequate protection under most contingencies.

KU expects to continue purchasing most of its coal, which has sulfur content in the 0.7% - 3.5% range, from western and eastern Kentucky, West Virginia, southern Indiana, southern Illinois, Ohio and Wyoming for the foreseeable future. This supply, in combination with the installation of FGDs (SO_2 removal systems), KU expects its use of higher sulfur coal to increase, the combination of which is expected to enable KU to continue to provide electric service in compliance with existing environmental laws and regulations. Coal is delivered to KU's generating stations by a mix of transportation modes, including barge, truck and rail.

Seasonality

Demand for and market prices for electricity are affected by weather. As a result, KU's overall operating results in the future may fluctuate substantially on a seasonal basis, especially when more severe weather conditions such as heat waves or winter storms make such fluctuations more pronounced. The pattern of this fluctuation may change depending on the type and location of the facilities KU owns and the terms of its contracts to purchase or sell electricity.

Environmental Matters

General

Protection of the environment is a major priority for KU and a significant element of its business activities. KU's properties and operations are subject to extensive environmental-related oversight by federal, state and local regulatory agencies, including via air quality, water quality, waste management and similar laws and regulations. Therefore, KU must conduct its operations in accordance with numerous permit and other requirements issued under or contained in such laws or regulations.

Climate Change

Recent developments continue to indicate an increased possibility of significant climate change or GHG legislation or regulation, at the international, federal, regional and state levels. During December 2009, as part of the United Nation's Copenhagen Accord, the United States agreed to a non-binding goal to reduce GHG emissions to 17% below 2005 levels by 2020. Additionally, during 2009, the U.S. House of Representatives passed comprehensive GHG legislation, which included a number of measures to limit GHG emissions and achieve GHG emission reduction targets below 2005 levels of 3% by 2012, 17% by 2020 and 83% by 2050. Similar legislation has been considered in the U.S. Senate, but the prospects for passage remain uncertain. In late 2009, the EPA issued a final endangerment finding relating to mobile sources of GHGs and a GHG reporting requirement beginning in 2010. In 2010, the EPA issued a final rule requiring implementation of best available control technology for GHG emissions from new or modified power plants, effective January 2011. In December 2010, the EPA announced that it intends to propose New Source Performance Standards addressing GHG emissions from new and existing power plants, with a proposed rule expected in July 2011. Finally, a number of U.S. states, although not currently including Kentucky, have adopted GHG-reduction legislation or regulation of various sorts. The developing GHG initiatives include a number of differing structures and formats, including direct limitations on GHG sources, issuance of allowances for GHG emissions, cap-and-trade programs for such allowances, renewable or alternative generation portfolio standards and mechanisms relating to demand reduction, energy efficiency, smart-grid, transmission expansion, carbon-sequestration or other GHG-reducing efforts. While the final terms and impacts of such initiatives cannot be estimated, KU, as a primarily coal-fired utility, could be highly affected by such proceedings.

Among other emissions, GHGs include carbon-dioxide, which is produced via the combustion of fossil fuels such as coal and natural gas. KU’s generating fleet is approximately 66% coal-fired, 34% oil/natural gas-fired and less than 1% hydroelectric based on capacity. During 2010, KU produced approximately 98% of its electricity from coal, 2% from natural gas combustion and less than 1% from hydroelectric generation, based on Mwh. During 2010, KU’s emissions of GHGs were approximately 16.4 million metric tons of carbon-dioxide equivalents from KU’s owned or controlled generation sources. While its generation activities account for the bulk of its GHG emissions, other GHG sources at KU include operation of motor vehicles and powered equipment, leakage or evaporation associated with natural gas pipelines, refrigerating equipment and similar activities.

Ultimately, environmental matters or potential environmental matters can represent an important element of current or future potential capital requirements, future unit retirement or replacement decisions, supply and demand for electricity, operating and maintenance expenses or compliance risks for the Company. Based on prior regulatory precedent, KU currently anticipates that many of such direct costs may be recoverable through rates or other regulatory mechanisms, particularly with respect to coal-related generation, but the availability, timing or completeness of such rate recovery cannot be assured. Ultimately, climate change and other environmental matters will likely increase the level of capital expenditures and operating and maintenance costs incurred by the Company during the next several years. With respect to NAAQS, CATR, CAMR replacement and coal combustion byproducts developments, based on a preliminary analysis of proposed regulations, the Company may be required to consider actions such as upgrading existing emissions controls, installing additional emissions controls, upgrading byproducts disposal and storage and possible early replacement of coal-fired units. In order to comply with the coal combustion residual rules and the above referenced air rules, capital expenditures for KU are preliminarily estimated to be in the $1.5 to $1.7 billion range over the next ten years, although final costs may substantially vary. This estimate does not include compliance with GHG rules or contemplated water-related environmental changes. See Risk Factors, Management’s Discussion and Analysis and Note 13, Commitments and Contingencies, for further information.

State Executive or Legislative Matters

In November 2008, the Commonwealth of Kentucky issued an action plan to create efficient, sustainable energy solutions and strategies and move toward state energy independence. The plan outlines the following seven strategies to work toward these goals:

- Improve the energy efficiency of Kentucky's homes, buildings, industries and transportation fleet
- Increase Kentucky's use of renewable energy
- Sustainably grow Kentucky's production of biofuels
- Develop a coal-to-liquids industry in Kentucky to replace petroleum-based liquids
- Implement a major and comprehensive effort to increase natural gas supplies, including coal-to-natural gas in Kentucky
- Initiate aggressive carbon capture/sequestration projects for coal-generated electricity in Kentucky
- Examine the use of nuclear power for electricity generation in Kentucky

In December 2009, the Governor of Kentucky's Executive Task Force on Biomass and Biofuels issued a final report to establish potential strategic actions to develop biomass and biofuels industries in Kentucky. The plan noted the potential importance of biomass as a renewable energy source available to Kentucky and discussed various goals or mechanisms, such as the use of approximately 25 million tons of biomass for generation fuel annually, allotment of electricity and natural gas taxes and state tax credits to support biomass development.

In January 2010, a state-established Kentucky Climate Action Plan Council (the "Council") commenced formal activities. The Council, which includes governmental, industry, consumer and other representatives, seeks to identify possible Kentucky responses to potential climate change and federal legislation, including increasing statewide energy efficiency, energy independence and economic growth. The Council has established various technical work groups, including in the areas of energy supply and energy efficiency/conservation, to provide input, data and recommendations.

During the current session of the Kentucky General Assembly, as during prior legislative sessions, legislators have introduced or are expected to introduce various bills with respect to environmental or utility matters, including potential requirements relating to renewable energy portfolios, energy conservation measures, coal mining or coal byproduct operations and other matters. The current session is scheduled to end in March 2011 and until such time the prospects and final terms of any such legislation cannot be determined. Legislative and regulatory actions as a result of these proposals and their impact on KU, which may be significant, cannot currently be predicted.

Franchises and Licenses

KU provides electric delivery service in its various service areas pursuant to certain franchises, licenses, statutory service areas, easements and other rights or permissions granted by state legislatures, cities or municipalities or other entities.

Competition

There are currently no other electric utilities operating within the electric service areas of KU. Neither the Kentucky General Assembly nor the Kentucky Commission has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of any legislative or regulatory actions regarding industry restructuring and their impact on KU, which may be significant, cannot currently be predicted. Virginia, formerly a competitive jurisdiction, has enacted legislation which implements a hybrid model of cost-based regulation. See Note 3, Rates and Regulatory Matters, for further information.

Employees and Labor Relations

KU had 974 employees at December 31, 2010, consisting of 973 full-time employees and 1 part-time employee. Of the total employees, 145, or 15%, were operating, maintenance and construction employees represented by the IBEW Local 2100 and the United Steelworkers of America ("USWA") Local 9447-01. In August 2009, the Company and its employees represented by the IBEW Local 2100 entered into a three-year collective bargaining agreement that provides for negotiated increases or changes to wages, benefits or other provisions and annual wage re-openers. In August 2008, the Company and its employees represented by the USWA Local 9447-01 entered into a three-year collective bargaining agreement that provides for negotiated increases or changes to wages, benefits or other provisions and annual wage re-openers.

Officers of the Company

Officers are elected annually by the Board of Directors. There are no family relationships among any of the executive officers, nor is there any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

Except as may be set forth in Legal Proceedings, there have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer during the past five years.

Listed below are the executive officers at December 31, 2010.

Name	Age	Positions Held During the Past Five Years	Dates
Victor A. Staffieri	55	Chairman of the Board, President and Chief Executive Officer	May 2001 – present
John R. McCall	67	Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer	July 1994 – present
Chris Hermann	63	Senior Vice President – Energy Delivery	February 2003 – present
Paula H. Pottinger	53	Senior Vice President – Human Resources	January 2006 – present
S. Bradford Rives	52	Chief Financial Officer	September 2003 – present
Paul W. Thompson	53	Senior Vice President – Energy Services	June 2000 – present

Officers generally serve in the same capacities at the Company, LKE and LG&E.

Risk Factors

Any of the events or circumstances described as risks below could result in a significant or material adverse effect on the business, results of operations, cash flows or financial condition. The risks and uncertainties described below may not be the only risks and uncertainties that KU faces. Additional risks and uncertainties not currently known or that KU currently deems immaterial may also result in a significant or material adverse effect on the business, results of operations, cash flow or financial condition.

KU's business is subject to significant and complex governmental regulation.

Various federal and state entities, including but not limited to the FERC, Kentucky Commission, Virginia Commission and the Tennessee Regulatory Authority, regulate many aspects of utility operations of KU, including the following:

- the rates that KU may charge and the terms and conditions of the Company's service and operations;
- financial and capital structure matters;
- siting and construction of facilities;
- mandatory reliability and safety standards and other standards of conduct;
- accounting, depreciation and cost allocation methodologies;
- tax matters;
- affiliate restrictions;
- acquisition and disposal of utility assets and securities; and
- various other matters.

Such regulations or changes thereto may subject KU to higher operating costs or increased capital expenditures and failure to comply could result in sanctions or possible penalties. In any rate-setting proceedings, federal or state agencies, intervenors and other permitted parties may challenge rate requests and ultimately reduce, alter or limit the rates the Company seeks.

The profitability of KU is highly dependent on its ability to recover the costs of providing energy and utility services to its customers and earn an adequate return on its capital investments. KU currently provides services to retail customers at rates approved by one or more federal or state regulatory commissions, including those commissions referred to above. While these rates are generally regulated based on an analysis of their costs incurred in a base year, the rates KU is allowed to charge may or may not match its costs at any given time. While rate regulation is premised on providing a reasonable opportunity to earn a reasonable rate of return on invested capital, there can be no assurance that the applicable regulatory commissions will consider all of the costs to have been prudently incurred or that the regulatory process in which rates are determined will always result in rates that will produce full recovery of KU's costs or an adequate return on KU's capital investments. If the Company's costs are not adequately recovered through rates, it could have an adverse affect on the business, results of operations, cash flows or financial condition.

As part of the PPL acquisition commitments, KU has agreed, subject to certain limited exceptions such as fuel and environmental cost recoveries, that no base rate increase would take effect for Kentucky retail customers before January 1, 2013.

Transmission and interstate market activities of KU, as well as other aspects of the business, are subject to significant FERC regulation.

KU is subject to extensive regulation by the FERC covering matters including rates charged to transmission users, market-based or cost-based rates applicable to wholesale customers; interstate power market structure; construction and operation of transmission facilities; mandatory reliability standards; standards of conduct and affiliate restrictions and other matters. Existing FERC regulation, changes thereto or issuances of new rules or situations of non-compliance, including but not limited to the areas of market-based tariff authority, RSG resettlements in the MISO market, mandatory reliability standards and natural gas transportation regulation can affect the earnings, operations or other activities of KU.

Changes in transmission and wholesale power market structures could increase costs or reduce revenues.

Wholesale sales fluctuate with regional demand, fuel prices and contracted capacity. Changes to transmission and wholesale power market structures and prices may occur in the future, are not estimable and may result in unforeseen effects on energy purchases and sales, transmission and related costs or revenues. These can include commercial or regulatory changes affecting power pools, exchanges or markets in which KU participates.

KU undertakes significant capital projects and these activities are subject to unforeseen costs, delays or failures, as well as risk of inadequate recovery of resulting costs.

KU's business is capital intensive and requires significant investments in energy generation and distribution and other infrastructure projects, such as projects for environmental compliance. The completion of these projects without delays or cost overruns is subject to risks in many areas, including the following:

- approval, licensing and permitting;
- land acquisition and the availability of suitable land;
- skilled labor or equipment shortages;
- construction problems or delays, including disputes with third party intervenors; increases in commodity prices or labor rates;
- contractor performance;
- environmental considerations and regulations;
- weather and geological issues; and
- political, labor and regulatory developments.

Failure to complete capital projects on schedule or on budget, or at all, could adversely affect the Company's financial performance, operations and future growth.

The costs of compliance with, and liabilities under, environmental laws are significant and are subject to continual changes.

Extensive federal, state and local environmental laws and regulations are applicable to KU's air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, KU's costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc., and may impact the costs of their products or their demand for KU's services.

KU is subject to operational and financial risks regarding certain on-going developments concerning environmental regulation.

A number of regulatory initiatives have been implemented or are under development which could have the effect of significantly increasing the environmental regulation or operational or compliance costs related to a number of emissions or operating activities which are associated with the combustion of coal as occurs at the Company's generating stations. Such developments could include potential new or revised federal or state legislation or regulation regarding emissions of NOx, SO_2, mercury and other particulates generally and regarding storage of coal combustion byproducts. Additional regulatory initiatives may occur in other areas involving the Company's operations, including revision of limitations on water discharge or intake activities or increased standards relating to polychlorinated biphenyl usage. Compliance with any new laws or regulations in these matters could result in significant changes to KU's operations, significant capital expenditures by the Company or significant increases in the cost of conducting business.

Operating results are affected by weather conditions, including storms and seasonal temperature variations, as well as by significant man-made or accidental disturbances, including terrorism or natural disasters.

These weather or other factors can significantly affect the finances or operations of KU by changing demand levels; causing outages; damaging infrastructure or requiring significant repair costs; affecting capital markets and general economic conditions or impacting future growth.

KU is subject to operational and financial risks regarding potential developments concerning global climate change.

Various regulatory and industry initiatives have been implemented or are under development to regulate or otherwise reduce emissions of GHGs, which are emitted from the combustion of fossil fuels such as coal and natural gas, as occurs at the Company's generating stations. Such developments could include potential federal or state legislation or industry initiatives allocating or limiting GHG emissions; establishing costs or charges on GHG emissions or on fuels relating to such emissions; requiring GHG capture and sequestration; establishing renewable portfolio standards or generation fleet-diversification requirements to address GHG emissions; promoting energy efficiency and conservation; changes in transmission grid construction, operation or pricing to accommodate GHG-related initiatives; or other measures. The generation fleet of KU is predominantly coal-fired and may be highly impacted by developments in this area. Compliance with any new laws or regulations regarding the reduction of GHG emissions could result in significant changes to KU's operations, significant capital expenditures by the Company and a significant increase in the cost of conducting business. KU may face strong competition for, or difficulty in obtaining, required GHG-compliance related goods and services, including construction services, emissions allowances and financing, insurance and other inputs relating thereto. Increases in KU’s costs or prices of producing or selling electric power due to GHG-related developments could materially reduce or otherwise affect the demand, revenue or margin levels applicable to its power, thus adversely affecting its financial condition or results of operations.

KU is subject to physical, market and economic risks relating to potential effects of climate change.

Climate change may produce changes in weather or other environmental conditions, including temperature or precipitation changes, such as warming or drought. These changes may affect farm and agriculturally-dependent businesses and activities, which are an important part of Kentucky’s economy, and thus may impact consumer demand for electric power. Temperature increases could result in increased overall electricity volumes or peaks and precipitation changes could result in altered availability of water for plant cooling operations. These or other meteorological changes could lead to increased operating costs, capital expenses or power purchase costs by KU. Conversely, climate change could have a number of potential impacts tending to reduce demand. Changes may entail more frequent or more intense storm activity, which, if severe, could temporarily disrupt regional economic conditions and adversely affect electricity demand levels. As discussed in other risk factors, storm outages and damage often directly decrease revenues or increase expenses, due to reduced usage and higher restoration charges, respectively. GHG regulation could increase the cost of electric power, particularly power generated by fossil fuels, and such increases could have a depressive effect on the regional economy. Reduced economic and consumer activity in the service area of KU, both in general and specific to certain industries and consumers accustomed to previously low-cost power, could reduce demand for KU’s electricity. Also, demand for services could be similarly lowered should consumers’ preferences or market factors move toward favoring energy efficiency, low-carbon power sources or reduced electric usage generally.

The business of KU is subject to risks associated with local, national and worldwide economic conditions.

The consequences of prolonged recessionary conditions may include a lower level of economic activity and uncertainty or volatility regarding energy prices and the capital and commodity markets. A lower level of economic activity might result in a decline in energy consumption, unfavorable changes in energy and commodity prices and slower customer growth, which may adversely affect KU’s future revenues and growth. Instability in the financial markets, as a result of recession or otherwise, also may affect the cost of capital and the ability to raise capital. A deterioration of economic conditions may lead to decreased production by KU’s industrial customers and, therefore, lower consumption of electricity. Decreased economic activity may also lead to fewer commercial and industrial customers and increased unemployment, which may in turn impact residential customers’ ability to pay. Further, worldwide economic activity has an impact on the demand for basic commodities needed for utility infrastructure. Changes in global demand may impact the ability to acquire sufficient supplies and the cost of those commodities may be higher than expected.

KU's business is concentrated in the Midwest United States, specifically Kentucky and Virginia.

Although the business of KU is concentrated in Kentucky and Virginia, it also operates in Tennessee. Local and regional economic conditions, such as population growth, industrial growth, expansion and economic development or employment levels, as well as the operational or financial performance of major industries or customers, can affect the demand for energy and KU's results of operations. Significant industries and activities in the service area of KU include aluminum and steel smelting and fabrication; chemical processing; coal, mineral and ceramic related activities; educational institutions; health care facilities; paper and pulp processing; metal fabrication; and water and sewer utilities. Any significant downturn in these industries or activities or in local and regional economic conditions in KU's service area may adversely affect the demand for electricity in the service area.

KU is subject to operational risks relating to KU's generating plants, transmission facilities, distribution equipment, information technology systems and other assets and activities.

Operation of power plants, transmission and distribution facilities, information technology systems and other assets and activities subjects KU to many risks, including the breakdown or failure of equipment; accidents; security breaches, viruses or outages affecting information technology systems; labor disputes; obsolescence; delivery/transportation problems and disruptions of fuel supply and performance below expected levels. Occurrences of these events may impact the ability of KU to conduct its business efficiently or lead to increased costs, expenses or losses.

Although KU maintains customary insurance coverage for certain of these risks common to utilities, it does not have insurance covering the transmission and distribution systems, other than substations, because it has found the cost of such insurance to be prohibitive. If KU is unable to recover the costs incurred in restoring transmission and distribution properties following damage resulting from ice storms, tornados or other natural disasters or to recover the costs of other liabilities arising from the risks of its business, through a change in rates or otherwise, or if such recovery is not received on a timely basis, it may not be able to restore losses or damages to its properties without an adverse effect on its financial condition, results of operations or its reputation.

KU is subject to liability risks relating to its generation, transmission, distribution and retail businesses.

The conduct of the physical and commercial operations of KU subjects it to many risks, including risks of potential physical injury, property damage or other financial affects, caused to or caused by employees, customers, contractors, vendors, contractual or financial counterparties and other third parties.

KU could be negatively affected by rising interest rates, downgrades to bond credit ratings or other negative developments in its ability to access capital markets.

In the ordinary course of business, KU is reliant upon adequate long-term and short-term financing means to fund significant capital expenditures, debt interest or maturities and operating needs. As a capital-intensive business, the Company is sensitive to developments in interest rate levels; credit rating considerations; insurance, security or collateral requirements; market liquidity and credit availability and refinancing steps necessary or advisable to respond to credit market changes. Changes in these conditions could result in increased costs and decreased liquidity available to the Company.

KU is subject to commodity price risk, credit risk, counterparty risk and other risks associated with the energy business.

General market or pricing developments or failures by counterparties to perform their obligations relating to energy, fuels, other commodities, goods, services or payments could result in potential increased costs to the Company.

KU is subject to risks associated with defined benefit retirement plans, health care plans, wages and other employee-related matters.

KU sponsors pension and postretirement benefit plans for its employees. Risks with respect to these plans include adverse developments in legislation or regulation, future costs or funding levels, returns on investments, market fluctuations, interest rates and actuarial matters. Changes in health care rules, market practices or cost structures can affect current or future funding requirements or liabilities. Without sustained growth in respective investments over time to increase the value of plan assets, KU could be required to fund plans with significant amounts of cash. KU is also subject to risks related to changing wage levels, whether related to collective bargaining agreements or employment market conditions, ability to attract and retain key personnel and changing costs of providing health care benefits.

KU is subject to risks associated with federal and state tax regulations.

Changes in taxation as well as the inherent difficulty in quantifying potential tax effects of business decisions could negatively impact results of operations. KU is required to make judgments in order to estimate its obligations to taxing authorities. These tax obligations include income, property, sales and use and employment-related taxes. KU also estimates its ability to utilize tax benefits and tax credits. Due to the revenue needs of the states and jurisdictions in which KU operates, various tax and fee increases may be proposed or considered. KU cannot predict whether legislation or regulation will be introduced or the effect on the Company of any such changes. If enacted, any changes could increase tax expense and could have a negative impact on its results of operations and cash flows.

Legal Proceedings

Rates and Regulatory Matters

For a discussion of current rates and regulatory matters, including recent electric base rate increase proceedings, rate commitments in change-of-control proceedings, TC2 proceedings, FERC, Kentucky Commission and Virginia Commission proceedings and other rates or regulatory matters affecting KU, see Note 3, Rates and Regulatory Matters, and Note 13, Commitments and Contingencies.

Environmental

For a discussion of environmental matters, including potential coal combustion byproduct or ash pond regulation; additional reductions in SO_2, NOx and other regulated emissions; NOVs and other emissions proceedings; environmental permit challenges; and other environmental items affecting KU, see Risk Factors, Note 3, Rates and Regulatory Matters, and Note 13, Commitments and Contingencies.

Climate Change

For a discussion of matters relating to potential climate change, GHG emission or global warming developments, including increased legislative and regulatory activity which could limit or increase costs applicable to fossil fuel generation sources, legal proceedings claiming damages relating to global warming, GHG reporting requirements and other matters, see Business, Risk Factors, Management's Discussion and Analysis and Note 13, Commitments and Contingencies.

Litigation

In connection with an administrative proceeding alleging a violation by a former Argentine affiliate under that country's 2002-2003 emergency currency exchange laws, claims are pending against the affiliate's then directors, including two individuals who are executive officers of the Company, in a specialized Argentine financial criminal court. Under applicable Argentine laws, directors of a local company may be liable for monetary penalties for a subject company's violations of the currency laws. The affiliate and the relevant executive officers believe their actions were in compliance with the relevant laws and have presented defenses in the administrative and criminal proceedings. LKE has standard indemnification arrangements with its executive officers. The former affiliate is now owned by a third party, which has agreed to indemnify LKE and the relevant executive officers.

For a discussion of litigation matters, see Note 13, Commitments and Contingencies.

Other

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

Selected Financial Data

Dollars are in millions unless otherwise noted.

	Successor	Predecessor				
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31,			
			2009	2008	2007	2006
Operating revenues	$ 263	$ 1,248	$ 1,355	$ 1,405	$ 1,272	$ 1,210
Operating income	$ 65	$ 285	$ 269	$ 260	$ 267	$ 235
Net income	$ 35	$ 140	$ 133	$ 158	$ 167	$ 152
Total assets	$ 6,059	$ 5,145	$ 4,956	$ 4,518	$ 3,796	$ 3,148
Long-term debt obligations (including amounts due within one year)	$ 1,841	$ 1,682	$ 1,682	$ 1,532	$ 1,264	$ 843

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

Management's Discussion and Analysis

Management's Discussion and Analysis should be read in conjunction with the Financial Statements and Notes for the years ended December 31, 2010, 2009 and 2008. Dollars are in millions unless otherwise noted.

The purpose of "Management's Discussion and Analysis" is to provide information about KU's performance in implementing its' strategies and managing risks and challenges. Specifically:

- "Overview" provides background regarding KU's business and identifies significant matters with which management is primarily concerned in evaluation of KU's financial condition and operating results.
- "Results of Operations" provides a description of KU's operating results in 2010, 2009 and 2008, including a review of earnings and a brief outlook for 2011.
- "Financial Condition" provides an analysis of KU's liquidity position and credit profile, including its sources of cash (including bank credit facilities and sources of operating cash flow) and uses of cash (including contractual obligations and capital expenditure requirements) and the key risks and uncertainties that impact KU's past and future liquidity position and financial condition. This subsection also includes a discussion of KU's current credit ratings.
- "Application of Critical Accounting Policies and Estimates" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of KU and that require its management to make significant estimates, assumptions and other judgments.

Overview

KU is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. See the Business section for a description of the business. The rates KU charges its customers requires approval of the appropriate regulatory government agency. See Note 3, Rates and Regulatory Matters, for information regarding rate cases, regulatory assets and liabilities and other regulatory matters.

KU and its affiliate, LG&E, are wholly owned subsidiaries of LKE, a Kentucky limited liability company. PPL acquired LKE on November 1, 2010. Headquartered in Allentown, Pennsylvania, PPL is an energy and utility holding company that was incorporated in 1994. Through its subsidiaries, PPL owns or controls about 19,000 megawatts of generating capacity in the U.S., sells energy in key U.S. markets and delivers electricity and natural gas to about 5.3 million customers in the U.S. and the U.K. Following the acquisition, both KU and LG&E continue operating as subsidiaries of LKE, which is now an intermediary holding company in the PPL group of companies. See Note 2, Acquisition by PPL, for further information regarding the acquisition.

In operating its business, the Company faces several risks including credit risks, liquidity risks, interest rate risks and commodity and price risks. For instance, the Company has credit risks from counterparties, customers and effects of its' own credit ratings. KU attempts to manage these risks through the adoption of financial and operational risk management programs that, among other things, are designed to monitor and reduce its' exposure to these risks. Identified within "Management's

Discussion and Analysis" of "Financial Condition" and "Results of Operations" are risks KU's management currently consider material; these risks are not the only risks faced by KU. Additional risks not presently known or currently deemed immaterial may also impair KU's business operations. See Risk Factors and Financial Condition - Risk Management for further discussion.

Predecessor and Successor Financial Presentation

KU's financial statements and related financial and operating data include the periods before or after PPL's acquisition of LKE on November 1, 2010, and are labeled as Predecessor or Successor. KU applied push-down accounting to account for the acquisition. For accounting purposes only, push-down accounting is considered to create a new entity due to new cost basis assigned to assets, liabilities and equity as of the acquisition date. Consequently, KU's results of operations and cash flows for the Predecessor and Successor periods in 2010 are shown separately, rather than combined, in its audited financial statements.

In the "Management's Discussion and Analysis" of "Results of Operations" and "Financial Condition", the Company has included disclosure of the combined Predecessor and Successor results of operations and cash flows. Such presentation is considered to be a non-GAAP disclosure. KU has included such disclosure because the Company believes it facilitates the comparison of 2010 operating and financial performance to 2009 and 2008, and because the core operations of the Company have not changed as a result of the acquisition.

Competition

See the Business section for information concerning competition.

Environmental Matters

General

Protection of the environment is a major priority for KU and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to KU's air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc., and may impact the costs of their products or their demand for KU's services.

Climate Change

Recent developments continue to indicate an increased possibility of significant climate change or GHG legislation or regulation, at the international, federal, regional and state levels. During December 2009, as part of the United Nation's Copenhagen Accord, the United States agreed to a non-binding goal to reduce GHG emissions to 17% below 2005 levels by 2020. Additionally, during 2009, the U.S. House of

Representatives passed comprehensive GHG legislation, which included a number of measures to limit GHG emissions and achieve GHG emission reduction targets below 2005 levels of 3% by 2012, 17% by 2020 and 83% by 2050. Similar legislation has been considered in the U.S. Senate, but the prospects for passage remain uncertain. In late 2009, the EPA issued a final endangerment finding relating to mobile sources of GHGs and a GHG reporting requirement beginning in 2010. In 2010, the EPA issued a final rule requiring implementation of best available control technology for GHG emissions from new or modified power plants, effective January 2011. In December 2010, the EPA announced that it intends to propose New Source Performance Standards addressing GHG emissions from new and existing power plants, with a proposed rule expected in July 2011. Finally, a number of U.S. states, although not currently including Kentucky, have adopted GHG-reduction legislation or regulation of various sorts. The developing GHG initiatives include a number of differing structures and formats, including direct limitations on GHG sources, issuance of allowances for GHG emissions, cap-and-trade programs for such allowances, renewable or alternative generation portfolio standards and mechanisms relating to demand reduction, energy efficiency, smart-grid, transmission expansion, carbon-sequestration or other GHG-reducing efforts. While the final terms and impacts of such initiatives cannot be estimated, KU, primarily a coal-fired utility, could be highly affected by such proceedings.

Other Environmental Regulatory Initiatives

The EPA has proposed or announced that it intends to propose a number of additional environmental regulations that could substantially impact utilities with coal-fired generating assets. These regulatory initiatives include revisions to the ambient air quality standards for SO_2, NO_2, ozone and particulate matter 2.5 microns in size or less, rules aimed at mitigating the interstate transport of SO_2 and NOx, a program governing emissions of hazardous air pollutants from utility generating units, a program for the management of coal combustion residuals, revised effluent guidelines for utility generating facilities and standards for cooling water intake structures. Such requirements could potentially mandate upgrade of existing emission controls, installation of additional emission controls such as FGDs, SCRs, fabric filter bag houses, activated carbon injection, wet electrostatic precipitators, closure of ash ponds and retrofit of landfills, installation of cooling towers, deployment of new water treatment technologies and retirement of facilities that cannot be retrofitted on a cost effective basis.

The cost to KU and the effect on KU’s business of complying with potential GHG restrictions and other environmental regulatory initiatives will depend upon provisions of any final rules and how the rules are implemented by the EPA. Some of the design elements which may have the greatest effect on KU include (a) the required levels and timing of emissions caps, discharge limits or similar standards, (b) the sources covered by such requirements, (c) transition and mitigation provisions, such as phase-in periods, free allowances or price caps, (d) the availability and pricing of relevant mitigation or control technologies, goods or services and (e) economic, market and customer reaction to electricity price and demand changes due to environmental concerns.

Ultimately, environmental matters or potential environmental matters can represent an important element of current or future potential capital requirements, future unit retirement or replacement decisions, supply and demand for electricity, operating and maintenance expenses or compliance risks for the Company. Based on prior regulatory precedent, KU currently anticipates that many of such direct costs may be recoverable through rates or other regulatory mechanisms, particularly with respect to coal-related generation, but the availability, timing or completeness of such rate recovery cannot be assured. Ultimately, climate change and other environmental matters will likely increase the level of capital expenditures and operating and maintenance costs incurred by the Company during the next several years. With respect to NAAQS, CATR, CAMR replacement and coal combustion byproducts developments, based on a preliminary analysis of proposed regulations, the Company may be required to consider actions such as upgrading existing emissions controls, installing additional emissions controls, upgrading byproducts disposal and storage and possible early replacement of coal-fired units. In order to comply with the coal combustion residual rules and the above referenced air rules, capital expenditures for KU are preliminarily estimated to be in the $1.5 to $1.7 billion range over the next ten years, although final costs may substantially vary. This estimate does not include compliance with GHG rules or contemplated water-related environmental changes. See Risk Factors and Note 13, Commitments and Contingencies, for further information.

Results of Operations

The utility business is affected by seasonal temperatures. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year. Revenue and earnings are generally highest during the first and third quarters, and lowest in the second quarter, due to weather.

Net Income

The following table summarizes the significant components of net income for 2010, 2009 and 2008 and the changes therein:

	Combined	Successor	Predecessor		
	Year Ended December 31, 2010	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Total operating revenues	$ 1,511	$ 263	$ 1,248	$1,355	$ 1,405
Total operating expenses	1,161	198	963	1,086	1,145
Operating income	350	65	285	269	260
Equity in earnings of unconsolidated venture	3	-	3	1	30
Interest expense	14	8	6	6	14
Interest expense to affiliated companies	64	2	62	69	58
Other income (expense) – net	(2)	-	(2)	5	8
Income before income taxes	273	55	218	200	226
Income tax expense	98	20	78	67	68
Net income	$ 175	$ 35	$ 140	$ 133	$ 158

The change in KU's net income was as follows:

	Increase (Decrease)	
	2010 vs. 2009	2009 vs. 2008
Total operating revenues	$ 156	$ (50)
Total operating expenses	75	(59)
Operating income	81	9
Equity in earnings of unconsolidated venture	2	(29)
Interest expense	8	(8)
Interest expense to affiliated companies	(5)	11
Other income (expense) – net	(7)	(3)
Income (loss) before income taxes	73	(26)
Income taxes	31	(1)
Net income	$ 42	$ (25)

Operating Revenues

The $156 million increase from 2009 to 2010 and $50 million decrease from 2008 to 2009 in operating revenues were primarily due to:

	Increase (Decrease)	
	2010 vs. 2009	2009 vs. 2008
Retail sales volumes (a)	$ 73	$ (43)
Base rate price variance (b)	39	(5)
Demand revenue (c)	16	(1)
Sales to municipal customers (d)	12	(1)
Increased recoverable capital spending billed through the ECR	8	50
Other operating revenue primarily due to late payment charges	6	6
FAC price variance (e)	5	(2)
Merger surcredit termination in February 2009	2	13
Transmission sales	1	-
Increased recoverable program spending billed through the DSM	1	9
Wholesale sales (f)	(7)	(77)
VDT surcredit termination in August 2008	-	1
	$ 156	$ (50)

(a) Retail sales volumes increased during 2010 compared to 2009 as a result of increased consumption primarily due to increased heating degree days during the first and fourth quarters of 2010 and increased cooling degree days during the second and third quarters of 2010. Additionally, improved economic conditions in 2010 and significant storm outages in 2009 contributed to the increased volumes.

The decrease in retail sales volumes during 2009 compared to 2008 was attributable to reduced consumption by retail customers, as a result of milder weather and weakened economic conditions, in addition to significant storm outages during 2009.

(b) The increase in revenues due to the base rate price variance during 2010 compared to 2009 resulted from higher base rates effective August 1, 2010. See Note 3, Rates and Regulatory Matters, for further discussion of the 2010 Kentucky rate case.

The decrease in revenues due to the base rate price variance during 2009 compared to 2008 resulted from a reduction in base energy rates effective February 6, 2009. See Note 3, Rates and Regulatory Matters, for further discussion of the 2008 Kentucky rate case.

(c) Demand revenues increased during 2010 compared to 2009 as a result of higher demand rates effective August 1, 2010 and higher customer peak demand. See Note 3, Rates and Regulatory Matters, for further discussion of the 2010 Kentucky rate case.

(d) The increase in sales to municipal customers during 2010 compared to 2009 was primarily due to increased volumes as a result of increased cooling and heating degree days, improved economic conditions and a decline in storm outages.

(e) FAC revenues increased during 2010 compared to 2009 as a result of increased recoverable fuel costs billed to customers through the FAC due to higher fuel prices.

The decrease in the FAC revenue during 2009 compared to 2008 resulted from lower fuel costs billed to customers through the FAC ($2 million) due to a refund of power purchased costs from OMU ($6 million) partially offset by increased recoverable fuel costs ($4 million) billed to retail customers through the FAC.

(f) The decrease in wholesale sales during 2010 compared to 2009 was primarily due to increased consumption by industrial customers, as a result of improved economic conditions, increased consumption by residential customers, as a result of increased cooling and heating degree days and an increase in LG&E’s coal-fired generation outages in the first six months of 2010. See Note 15, Related Party Transactions, for further discussion of the mutual agreement for wholesale sales and purchases between KU and LG&E.

The decrease in wholesale sales during 2009 compared to 2008 was primarily due to lower sales volumes to LG&E and third-parties due to lower economic capacity, caused by low spot market pricing and higher scheduled coal-fired generation outages. See Note 15, Related Party Transactions, for further discussion of the mutual agreement for wholesale sales and purchases between KU and LG&E.

Operating Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the FERC, Kentucky Commission, Virginia Commission and the Tennessee Regulatory Authority. Operating expenses and the changes therein for 2010, 2009 and 2008 follow:

	Combined	Successor	Predecessor		
	Year Ended December 31, 2010	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Fuel for electric generation	$ 495	$ 78	$ 417	$ 434	$ 513
Power purchased	175	28	147	199	221
Other operation and maintenance expenses	346	66	280	320	275
Depreciation and amortization	145	26	119	133	136
	$ 1,161	$ 198	$ 963	$ 1,086	$ 1,145

The changes in operating expenses were as follows:

	Increase (Decrease) 2010 vs. 2009	Increase (Decrease) 2009 vs. 2008
Fuel for electric generation	$ 61	$ (79)
Power purchased	(24)	(22)
Other operation and maintenance expenses	26	45
Depreciation and amortization	12	(3)
	$ 75	$ (59)

Fuel for Electric Generation

The $61 million increase from 2009 to 2010 and $79 million decrease from 2008 to 2009 were primarily due to:

	Increase (Decrease) 2010 vs. 2009	Increase (Decrease) 2009 vs. 2008
Fuel usage volumes (a)	$ 77	$ (97)
Commodity costs for coal	(15)	18
Other	(1)	-
	$ 61	$ (79)

(a) Fuel usage volumes increased in 2010 compared 2009 due to increased native load sales. Fuel usage volumes decreased in 2009 compared to 2008 due to decreased native load and wholesale sales.

Power Purchased Expense

The $24 million decrease from 2009 to 2010 and $22 million decrease from 2008 to 2009 were primarily due to:

	Increase (Decrease)	
	2010 vs. 2009	2009 vs. 2008
Power purchased from OMU	$ (40)	$ 12
Purchases from LG&E due to volume (a)	(5)	(2)
Demand payments for third party purchases	(2)	1
Prices for purchases used to serve retail customers	7	(14)
Third party purchased volumes for native load (b)	7	(6)
OMU settlement received in 2009	6	(6)
Purchases from LG&E due to prices	3	(7)
	$ (24)	$ (22)

(a) Purchased volumes from LG&E decreased in 2010 compared to 2009 primarily due to increased consumption by residential customers at LG&E as the result of increased cooling and heating degree days, increased coal-fired generation outages in the first six months of 2010 and higher energy usage by industrial customers as a result of improved economic conditions.

Purchased volumes from LG&E decreased in 2009 compared to 2008 due to LG&E's increased scheduled outages at coal-fired generation units during the fourth quarter of 2009. See Note 15, Related Party Transactions, for further discussion of the mutual agreement for wholesale sales and purchases between the Utilities.

(b) Third party purchase volumes with counterparties other than OMU increased in 2010 compared to 2009 primarily due to the termination of the OMU agreement. Third party purchase volumes with counterparties other than OMU decreased in 2009 compared to 2008 primarily due to availability of power for native load customers from the OMU agreement. See Note 13, Commitments and Contingencies, for further discussion of the OMU settlement.

Other Operation and Maintenance Expenses

The $26 million increase from 2009 to 2010 was primarily due to $22 million of increased other operation expenses and $4 million of increased maintenance expenses. The $45 million increase from 2008 to 2009 was primarily due to $30 million of increased other operation expenses and $15 million of increased maintenance expenses.

Other Operation Expenses:

The $22 million increase from 2009 to 2010 and $30 million increase from 2008 to 2009 were primarily due to:

	Increase (Decrease)	
	2010 vs. 2009	2009 vs. 2008
Administrative and general expense (a)	$ 9	$ 3
Transmission expense (b)	5	-
Bad debt expense (c)	4	(1)
Steam expense (d)	4	7
Generation expense	2	(2)
DSM program spending	-	9
Legal expenses (e)	-	(6)
Other power supply	(1)	-
Pension expense (f)	(2)	20
Other	1	-
	$ 22	$ 30

(a) Administrative and general expense increased in 2010 compared 2009 primarily due to higher labor expense and insurance expense, partially offset by lower IT expense related to the implementation of the Customer Care Solution system in 2009. Administrative and general expense increased in 2009 compared to 2008 primarily due to increased consulting fees for software training and increased labor and benefit costs.

(b) Transmission expense increased in 2010 compared to 2009 primarily due to a settlement agreement with a third party and the establishment of a regulatory asset approved by the Kentucky Commission for the EKPC settlement in 2009, net of twelve months of amortization expense recorded in 2010.

(c) Bad debt expense increased in 2010 compared to 2009 due to higher billed revenues, higher late payment charges and a higher net charge-off percentage.

(d) Steam expense increased in 2010 compared to 2009 primarily due to increased generation in 2010. Steam expense increased in 2009 compared to 2008 primarily due to the utilization of SCRs year-round.

(e) Legal expenses decreased in 2009 compared to 2008 primarily due to OMU expenses in 2008. See Note 13, Commitments and Contingencies, for further information regarding the OMU settlement.

(f) Pension expense decreased in 2010 compared to 2009 primarily due to favorable asset performance in 2009 and increased in 2009 compared to 2008 primarily due to unfavorable asset performance in 2008.

Other Maintenance Expenses:

The $4 million increase from 2009 to 2010 and $15 million increase from 2008 to 2009 were primarily due to:

	Increase (Decrease)	
	2010 vs. 2009	2009 vs. 2008
Generation expense (a)	$ 3	$ -
Steam expense (b)	2	7
Administrative and general expense	2	1
Transmission expense	-	2
Distribution expense (c)	(3)	5
	$ 4	$ 15

(a) Generation expense increased in 2010 compared to 2009 primarily due to the overhaul of Paddy's Run Unit 13.
(b) Steam expense increased in 2009 compared to 2008 due to increased scope of work for scheduled outages.
(c) Distribution expense decreased in 2010 compared to 2009 primarily due to higher storm cost in 2009, partially offset by higher tree trimming expense in 2010. Distribution expense increased in 2009 compared to 2008 primarily due to increased repairs, higher tree trimming expense and higher storm related expense.

Equity in Earnings of Unconsolidated Venture

The $2 million increase in equity in earnings of unconsolidated venture, from 2009 to 2010, was primarily due to higher earnings from EEI resulting from increased market prices for electric energy and the $29 million decrease from 2008 to 2009 was primarily due to lower earnings resulting from decreased market prices for electric energy.

Interest Expense

The $3 million increase from 2009 to 2010 and $3 million increase from 2008 to 2009 were primarily due to:

	Increase (Decrease)	
	2010 vs. 2009	2009 vs. 2008
Bond interest expense (a)	$ 8	$ (8)
Interest expense to affiliated companies (b)	(5)	11
	$ 3	$ 3

(a) Bond interest expense increased in 2010 compared to 2009 due to the issuance of first mortgage bonds in November 2010. Bond interest expense decreased in 2009 compared to 2008 due to lower interest rates on pollution control bonds. See Note 11, Long-Term Debt, for further information.
(b) Interest expense to affiliated companies decreased in 2010 compared to 2009 primarily due to notes payable to Fidelia being paid in full in November 2010, as a result of the PPL acquisition. Interest expense to affiliated companies increased in 2009 compared to 2008 primarily due to the

issuance of additional debt ($13 million), which was partially offset by lower interest rates on intercompany short-term borrowings.

Other Income (Expense) – Net

The $7 million decrease in other income (expense) – net from 2009 to 2010 and the $3 million decrease in other income (expense) – net from 2008 to 2009 were primarily due to the discontinuance of the allowance for funds used during construction on ECR projects as a result of the FERC rate case.

Income Tax Expense

See Note 10, Income Taxes, for a reconciliation of differences between the U.S. federal income tax expense at statutory rates and KU's income tax expense.

2011 Outlook

KU projects higher earnings in 2011 compared with 2010 as a net result of higher retail revenues and lower financing costs due to the issuance of first mortgage bonds in late 2010, partially offset by higher operation and maintenance expenses and depreciation. Retail revenues are expected to increase as a result of the 2010 Kentucky rate case and recoveries associated with its environmental investments. Operation and maintenance expenses and depreciation are expected to increase due to placing TC2 in service in January 2011. See Risk Factors for a discussion of the risk factors that may impact the 2011 outlook.

Financial Condition

Liquidity and Capital Resources

KU expects to continue to have adequate liquidity available through operating cash flows, cash and cash equivalents and its credit facilities. KU currently has no plans to access debt capital markets in 2011.

KU's cash flows from operations and access to cost-effective bank and capital markets are subject to risks and uncertainties including, but not limited to, the following:

- changes in market prices for electricity;
- potential ineffectiveness of the trading, marketing and risk management policy and programs used to mitigate KU's risk exposure to adverse electricity and fuel prices and interest rates;
- operational and credit risks associated with selling and marketing products in the wholesale power markets;
- unusual or extreme weather that may damage KU's transmission and distribution facilities or affect energy sales to customers;
- unavailability of generating units (due to unscheduled or longer than anticipated generation outages, weather and natural disasters) and the resulting loss of revenues and additional costs of replacement electricity;
- ability to recover and timeliness and adequacy of recovery of costs;
- costs of compliance with existing and new environmental laws;

- any adverse outcome of legal proceedings and investigations with respect to KU's current and past business activities;
- deterioration in the financial markets that could make obtaining new sources of bank and capital markets funding more difficult and more costly; and
- a downgrade in KU's credit ratings that could adversely affect its ability to access capital and increase the cost of credit facilities and any new debt.

See the Risk Factors section for further discussion of risks and uncertainties affecting KU's cash flows.

At December 31, KU had the following:

	Successor	Predecessor
	2010	2009
Cash and cash equivalents	$ 3	$ 2
Current portion of long-term debt (a)	$ -	$ 228
Current portion of long-term debt to affiliated company (b)	-	33
Notes payable to affiliated companies (c)	10	45
	$ 10	$ 306

(a) 2009 amount represents Carroll County 2002 Series A and B, 2004 Series A, 2006 Series B and 2008 Series A; Muhlenberg County 2002 Series A; and Mercer County 2000 Series A and 2002 Series A pollution control bonds subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. The Successor has classified these bonds as long-term because the Company has the intent and ability to utilize its $400 million credit facility which matures in December 2014, to fund any mandatory purchases. The Predecessor classified these bonds as the current portion of long-term debt due to the tender for purchase provisions. The Predecessor presentation and the Successor presentation are both appropriate under GAAP. See Note 1, Summary of Significant Accounting Policies, and Note 11, Long-Term Debt, for further information.

(b) 2009 amount represents debt owed to an E.ON affiliate, which was repaid in November 2010. See Note 11, Long-Term Debt, for further information.

(c) Amounts represent borrowings under KU's intercompany money pool agreement wherein LKE and/or LG&E make funds available to KU at market-based rates of up to $400 million. See Note 12, Notes Payable and Other Short-Term Obligations, for further information.

A condensed table of cash flows for the following periods in 2010, 2009 and 2008 is presented below. The Predecessor period, January 1, 2010 through October 31, 2010, and the Successor period, November 1, 2010 through December 31, 2010, were aggregated without further adjustment for purposes of comparison with the same periods in 2009 and 2008.

	Combined	Successor	Predecessor		
	Year Ended December 31, 2010	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Net cash provided by (used in) operating activities	$ 372	$ 28	$ 344	$ 253	$ 292
Net cash provided by (used in) investing activities	(427)	(87)	(340)	(507)	(695)
Net cash provided by (used in) financing activities	56	58	(2)	254	405
Change in cash and cash equivalents	$ 1	$ (1)	$ 2	$ -	$ 2

Operating Activities

Net cash provided by operating activities increased by 47%, or $119 million, in 2010 compared with 2009, primarily as a result of increased earnings, increased collections from the ECR mechanism and lower storm expenses. These increases in cash flow were partially offset by higher interest payments due to an accelerated settlement with the previous owner and higher 2010 income tax payments due to higher taxable income and investment tax credit benefits received in 2009.

Net cash provided by operating activities decreased by 13%, or $39 million, in 2009 compared with 2008, primarily as a result of higher storm expenses, decreased earnings and unfavorable changes in working capital. These decreases in cash flow were partially offset by lower income tax payments due to lower taxable income and investment tax credit benefits received.

KU expects to achieve relatively stable cash flows from operations during the next three years although future cash flows may be significantly impacted by changes in economic conditions or new environmental and tax regulations.

Investing Activities

The primary use of cash in investing activities is capital expenditures. See “Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2011 through 2013.

Net cash used in investing activities decreased by 16%, or $80 million, in 2010 compared with 2009, primarily as a result of a decrease of $89 million in capital expenditures, partially offset by a decrease of $9 million from restricted cash collections.

Net cash used in investing activities decreased by 27%, or $188 million, in 2009 compared with 2008, primarily as a result of a decrease of $180 million in capital expenditures and a increase of $8 million from restricted cash collections.

Financing Activities

Net cash provided by financing activities was $56 million in 2010 compared with $254 million in 2009. In spite of significant new debt issuances associated with the repayments to E.ON affiliates in connection with PPL's acquisition of the Company, cash provided by financing was less in 2010 due to lower increases in debt in 2010 and the payment of dividends in 2010; whereas, KU received equity contributions in 2009.

Net cash provided by financing activities was $254 million in 2009 compared with $405 million in 2008. The lower level of cash provided by financing in 2009 was the result of lower debt issuance to affiliated companies and lower levels of equity contributions received.

In the two months of 2010 following the acquisition, cash provided by financing activities of the Successor primarily consisted of the issuance of first mortgage bonds totaling $1,489 million after discounts and the issuance of intercompany notes totaling $1,331 million to a PPL subsidiary to repay debt due to an E.ON affiliate upon the closing of the sale. These amounts were offset by the repayment of $1,331 million to an E.ON affiliate upon the closing of the sale, the repayment of $1,331 million to a PPL affiliate upon the issuance of the first mortgage bonds, the repayment of $83 million of short-term borrowings due to an affiliated company and the payment of $17 million of debt issuance costs.

In 2010, cash used in financing activities by the Predecessor primarily consisted of the payment of $50 million of dividends to LKE mostly offset by increases in short-term borrowings due to an affiliated company totaling $48 million.

In 2009, cash provided by financing activities primarily consisted of the issuance of $150 million of intercompany notes to an E.ON affiliate, the receipt of capital contributions from LKE totaling $75 million and a $29 million increase in short-term borrowings due to an affiliated company.

In 2008, cash provided by financing activities primarily consisted of the issuance of $250 million of intercompany notes to an E.ON affiliate, the receipt of capital contributions from LKE totaling $145 million and a $7 million reduction in short-term borrowings due to an affiliated company. In addition, KU reacquired pollution control bonds totaling $80 million, reissued $63 million of that $80 million and issued $77 million of new pollution control bonds. Of the $77 million, $60 million was used to retire prior pollution control bonds, including the remaining $17 million which had been reacquired by the Company. This resulted in a cash receipt of $17 million to KU.

KU's debt financing activity in 2010 was:

	Issuances (a)	Retirements
Short-term borrowings from affiliated company – net change	$ -	$ (35)
Other borrowings from affiliated company	1,331	(1,331)
Borrowings from an E.ON affiliate	-	(1,331)
Issuance of bonds	1,489	-
Net change in debt financing	$ 2,820	$ (2,697)

(a) Issuances are net of pricing discounts, where applicable.

See Note 11, Long-Term Debt, for further information.

Working Capital Deficiency

As of December 31, 2009, KU had a working capital deficiency of $203 million, primarily due to the current portion of long-term debt to affiliated company totaling $33 million and $228 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." As of December 31, 2010, the Company no longer had a working capital deficiency because the current portion of long-term debt to affiliated company was paid off in conjunction with the PPL acquisition, and the $228 million of tax-exempt bonds were no longer classified as "Other current liabilities" by the Successor because the Company has the intent and ability to utilize its $400 million credit facility which expires in December 2014 to fund any mandatory purchases. See Note 11, Long-Term Debt, for further information.

Auction Rate Securities

Auctions for auction rate securities issued by KU continued to fail throughout 2010. See Note 11, Long-Term Debt, for further discussion.

Forecasted Sources of Cash

KU expects to continue to have adequate sources of cash available in the near term, including access to external financing, financing from affiliates and/or infusions of capital from LKE. Regulatory approvals are required for KU to incur additional debt. The FERC and the Virginia Commission authorize the issuance of short-term debt while the Kentucky Commission, Virginia Commission and the Tennessee Regulatory Authority authorize the issuance of long-term debt. In November 2009, KU received a two-year authorization from the FERC to borrow up to $400 million in short-term funds. KU also has authorization from the Virginia Commission that expires at the end of 2011, allowing short-term borrowing of up to $400 million. Short-term funds are made available via the Company's participation in an intercompany money pool agreement wherein LKE and/or LG&E make funds available to KU at market-based rates (based on highly rated commercial paper issues) up to $400 million or via the $400 million Revolving Credit Agreement discussed below. KU currently believes this authorization and these facilities, together with the Company's credit facilities discussed below, provide the necessary flexibility to address any liquidity needs.

Credit Facilities

On November 1, 2010, KU entered into a $400 million unsecured Revolving Credit Agreement with a group of banks. Under this new credit facility, which expires on December 31, 2014, KU has the ability to make cash borrowings and to request the lenders to issue letters of credit. Borrowings will generally bear interest at LIBOR-based rates plus a spread, depending upon KU's senior unsecured long-term debt rating. The new credit facility contains financial covenants requiring KU's debt to total capitalization to not exceed 70% and other customary covenants. As of December 31, 2010, KU's debt to total capitalization was 41% as calculated pursuant to the credit agreement. Under certain conditions, KU may request that the facility's capacity be increased by up to $100 million. This new credit facility replaced an existing bilateral line of credit totaling $35 million that was terminated November 1, 2010. As of December 31, 2010, there was no outstanding balance under the new credit facility, but there were $198 million of letters of credit outstanding to support outstanding bonds totaling $195 million. KU will utilize unused credit facility and money pool balances to fund working capital needs as they arise. See Note 12, Notes Payable and Other Short-Term Obligations, for further information regarding the Company's credit facilities.

Contributions from LKE

LKE may make capital contributions to KU, which can be used for general business purposes.

Long-Term Debt

KU currently does not plan to issue any new long-term debt in 2011.

Forecasted Uses of Cash

In addition to expenditures required for normal operating activities, such as fuel for electric generation, power purchased, payroll and taxes; KU currently expects to incur future cash outflows for capital expenditures, various contractual obligations and the payment of dividends.

Capital Requirements

KU's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. KU plans to fund capital expenditures through operating cash flows, the credit facility and, if needed, the issuance of long-term debt. KU expects its capital expenditures for the three year period ending December 31, 2013, to total approximately $1,406 million, consisting primarily of the following:

Construction of coal combustion residual storage structures	$ 346
Construction of environmental controls and capacity replacement	302
Construction of distribution and metering assets	260
Construction of generation assets	206
Construction of transmission assets	129
Recoverable environmental assets	99
Information technology projects	39
Other projects	25
	$ 1,406

The Company's capital program will focus primarily on compliance with existing or anticipated EPA environmental regulations, aging infrastructure and the need for increased storage capacity for coal combustion by-product materials over the next several years. This program may also 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 and other regulatory requirements. In particular, climate change initiatives, whether via legislative, regulatory or market channels, could restrict or disadvantage power generation from higher-carbon sources. Therefore, KU has included estimates regarding significant additional capital expenditures related to pending environmental regulations and legislation. These estimates are subject to final regulations and least cost analysis based on engineering studies. To the extent financial markets see climate change as a potential risk, KU may face reduced access to or increased costs in capital markets. Capital expenditures for KU associated with such actions are preliminarily estimated to be in the $1.5 to $1.7 billion range over the next ten years, although final costs may substantially vary.

See the Contractual Obligations table below and Note 13, Commitments and Contingencies, for further information concerning commitments.

Contractual Obligations

The following is provided to summarize contractual cash obligations for periods after December 31, 2010. KU anticipates cash from operations and external financing will be sufficient to fund future obligations. See the Statements of Capitalization.

	Payments Due by Period						
	2011	2012	2013	2014	2015	Thereafter	Total
Short-term debt (a)	$ 10	$ -	$ -	$ -	$ -	$ -	$ 10
Long-term debt (b)	-	-	-	-	250	1,601	1,851
Interest on long-term debt (c)	67	69	72	75	78	1,414	1,775
Operating leases (d)	8	7	5	5	3	1	29
Unconditional power purchase obligations (e)	9	10	10	10	10	114	163
Coal and natural gas purchase obligations (f)	439	200	144	93	91	14	981
Pension benefit plan obligations (g)	18	24	28	10	7	60	147
Postretirement benefit plan obligations (h)	5	6	6	6	6	33	62
Construction obligations (i)	113	3	-	-	-	-	116
Other obligations (j)	3	3	-	-	-	-	6
	$ 672	$ 322	$ 265	$ 199	$ 445	$ 3,237	$ 5,140

This table does not reflect contingent obligations. See Note 13, Commitments and Contingencies, for further information on contingent obligations.

(a) Represents borrowings due to affiliates within one year.
(b) Reflects principal maturities only based on legal maturity dates and includes the current portion of long-term debt.
(c) Assumes interest payments through maturity. The payments herein are subject to change as payments for debt that is or becomes variable-rate debt have been estimated.
(d) Represents future operating lease payments.
(e) Represents future minimum payments under OVEC power purchase agreements through March 13, 2026.
(f) Represents contracts to purchase coal, natural gas and natural gas transportation.

(g) Represents projected cash flows for funding the pension benefit plans as calculated by the actuary. For pension funding information see Note 9, Pension and Other Postretirement Benefit Plans.
(h) Represents projected cash flows for the postretirement benefit plan as calculated by the actuary. For postretirement funding information, see Note 9, Pension and Other Postretirement Benefit Plans.
(i) Represents construction commitments, including commitments for the Brown SCR and the Brown and Ghent landfill construction including associated material transport systems for coal combustion residual.
(j) Represents other contractual obligations including the SPP and TVA coordination agreements.

Pension and Postretirement Benefit Plans

See Application of Critical Accounting Policies and Estimates for discussion regarding discretionary contributions to the pension and postretirement benefit plans in 2011.

Dividends

Future dividends may be declared at the discretion of KU's Board of Directors, payable to its sole shareholder, LKE. As discussed in Note 12, Notes Payable and Other Short-Term Obligations, KU's dividend payments are limited under a covenant in its $400 million revolving line of credit facility. This covenant restricts the debt to total capital ratio to not more than 70%. KU is subject to Section 305(a) of the Federal Power Act, which makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in capital account." The meaning of this limitation has never been clarified under the Federal Power Act. KU believes, however, that this statutory restriction, as applied to its circumstances, would not be construed or applied by the FERC to prohibit the payment from retained earnings of dividends that are not excessive and are for lawful and legitimate business purposes.

Purchase, Redemption or Remarketing of Debt Securities

KU will continue to evaluate purchasing, redeeming or remarketing outstanding debt securities and may decide to take action depending upon prevailing market conditions and available cash.

Credit Ratings

KU's credit ratings reflect the views of three national rating agencies. 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. In October 2010, one national rating agency revised downward the short-term credit rating of the pollution control bonds and the issuer rating of the Company as a result of the then pending acquisition by PPL. Another raised the long-term rating of the pollution control bonds as a result of the addition of the first mortgage bonds as collateral. In October 2010, a third national rating agency provided an initial rating of the Company's pollution control bonds and first mortgage bonds. See Note 11, Long-Term Debt, for a discussion of downgrade actions in 2009 and 2008 related to the pollution control bonds caused by a change in the rating of the entity insuring those bonds.

Ratings Triggers

KU has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel and commodity transportation, which contain provisions requiring KU to post additional collateral, or permit the counterparty to terminate the contract if KU's credit rating were to fall below investment grade. See Note 5, Derivative Financial Instruments, for a discussion of Credit Risk Related Contingent Features, including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at December 31, 2010. At December 31, 2010, if KU's credit ratings had been below investment grade, KU would have been required to prepay or post an additional $16 million of collateral to counterparties for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations.

Off-Balance Sheet Arrangements

KU has very limited off-balance sheet activity. See Note 13, Commitments and Contingencies, for further discussion.

Risk Management

Credit Risk

KU is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. KU maintains credit policies and procedures to limit counterparty credit risk including evaluating credit ratings and financial information along with having certain counterparties post margin if the credit exposure exceeds certain thresholds. See Note 5, Derivative Financial Instruments, for information regarding risk management activities.

KU is exposed to potential losses as a result of nonpayment by customers. The Company maintains an allowance for doubtful accounts composed of accounts aged more than four months. Accounts are written off as management determines them uncollectible. See Application of Critical Accounting Policies and Estimates and Note 1, Summary of Significant Accounting Policies, for further discussion.

Certain of the Company's derivative instruments contain provisions that require it 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. See Note 5, Derivative Financial Instruments, for information regarding exposure and the risk management activities.

Liquidity Risk

KU expects to continue to have access to adequate sources of liquidity through operating cash flows, cash and cash equivalents, credit facilities and/or infusion of capital from its parent. See Financial Condition - Liquidity and Capital Resources for an expanded discussion of KU's liquidity position and a discussion of its forecasted sources of cash.

Securities Price Risk

KU has securities price risk through its participation in defined benefit pension and postretirement benefit plans. Declines in the market price of debt and equity securities could impact contribution requirements. See Application of Critical Accounting Policies and Estimates - Defined Benefits for a discussion of the assumptions and sensitivities regarding the defined benefit pension and postretirement benefit plans assumptions.

Interest Rate and Commodity Price Risk

KU is subject to interest rate and commodity price risk related to on-going business operations. It currently manages commodity risks using derivative instruments, including swaps and forward contracts. 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 December 31, 2010, no interest rate swaps were in effect for KU. At December 31, 2010, the Company's annual exposure to increased interest expense, based on a 10% increase in interest rates, was less than $1 million.

KU manages price risk by conducting energy trading activities through forward financial transactions. The following chart sets forth the net fair value of KU's commodity derivative contracts. See Note 5 Derivative Financial Instruments, for further information.

	Successor	Predecessor	
	December 31, 2010 (a)	October 31, 2010 (a)	December 31, 2009
Fair value of contracts outstanding at the beginning of the period	$ -	$ -	$ 1
Contracts realized or otherwise settled during the period	-	-	
Fair value of new contracts entered into during the period	-	-	-
Changes in fair value attributable to changes in valuation techniques	-	-	-
Other changes in fair value	-	-	(1)
Fair value of contracts outstanding at the end of the period	$ -	$ -	$ -

(a) 2010 activity is less than $1 million.

Related Party Transactions

KU and its Parent, LKE and subsidiaries of LKE engage in related party transactions. See Note 15, Related Party Transactions, for further information.

KU is not aware of any material ownership interest or operating responsibility by the executive officers of KU in outside partnerships, including leasing transactions with variable interest entities, or entities doing business with KU.

Acquisitions, Development and Divestitures

KU and LG&E have been constructing a new 760-Mw capacity base-load, coal-fired unit, TC2, which is jointly owned by KU (60.75%) and LG&E (14.25%), together with IMEA and IMPA (combined 25%). With limited exceptions the Company took care, custody and control of TC2 on January 22, 2011, and has dispatched the unit to meet customer demand since that date. KU and the contractor agreed to a further amendment of the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. See Note 13, Commitments and Contingencies, for further information.

KU continuously re-examines development projects based on market conditions and other factors to determine whether to proceed, to cancel or to expand the projects.

Application of Critical Accounting Policies and Estimates

The financial statements of KU are prepared in compliance with GAAP. The application of these principles necessarily involves judgments regarding future events, including legal and regulatory challenges and anticipated recovery of costs. These judgments could materially impact the financial statements and disclosures based on varying assumptions, which may be appropriate to use. In addition, the financial and operating environment also may have a significant effect, not only on the operation of the business, but also on the results reported through the application of accounting measures used in preparing the financial statements and related disclosures, even if the nature of the accounting policies applied has not changed. KU's senior management has reviewed the significant and critical accounting policies with the relevant governing bodies of the Company and its parent, as applicable.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used or if changes in the estimate that are reasonably possible could materially impact the financial statements. Management believes the following critical accounting policies reflect the significant estimates and assumptions used in the preparation of the Financial Statements.

Price Risk Management

See Financial Condition - Risk Management.

Regulatory Mechanisms

KU is a cost-based rate-regulated utility. As a result, the financial statements reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise be charged to expense. Likewise, regulatory liabilities are recognized for obligations expected to be returned through future regulated customer rates. The effect of such transactions or events would otherwise be reflected as income. In certain cases, regulatory liabilities are recorded based on the understanding with the regulator that current rates are being set to recover costs that are expected to be incurred in the future. The regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC, the Kentucky Commission, the Virginia Commission or the Tennessee Regulatory Authority. See Note 3, Rates and Regulatory Matters, for additional detail regarding regulatory assets and liabilities.

Defined Benefits

KU employees benefit from both funded and unfunded retirement benefit plans. See Note 1, Summary of Significant Accounting Policies, for information about policy changes between the Predecessor and Successor and the accounting for defined benefits including KU's method of amortizing gains and losses. KU makes various assumptions in arriving at pension and other postretirement benefit costs and obligations. The major assumptions include:

- KU's selection of discount rates is based on the Mercer Pension Discount Yield Curve (Predecessor) and the Towers Watson Yield Curve (Successor).
- KU's selection of rate of salary growth is based on historical data that includes employees' periodic pay increases and promotions, which are used to project employees' pension benefits at retirement.
- KU determines the expected long-term return on plan assets based on the current level of expected return on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on the current asset allocation.
- KU's management projects health care cost trends based on past health care costs, the near-term outlook and an assessment of likely long-term trends.

The performance of the capital markets affects the values of the assets that are held in trust to satisfy future obligations under the defined benefit pension plans. The return on investments within the plans was approximately 12% for the year ended December 31, 2010. The benefit plan assets and obligations are re-measured annually using a December 31 measurement date. Due to the PPL acquisition, the benefit plan assets and obligations were also re-measured at October 31, 2010. The Company's 2010 pension cost was approximately $3 million less than 2009. The Company anticipates its 2011 pension cost will be approximately $3 million less than the 2010 expense. The amount of future funding will depend upon the actual return on plan assets, the discount rate and other factors, but the Company funds its pension obligations in a manner consistent with the Pension Protection Act of 2006. The Company made discretionary contributions to its pension plan of $13 million in 2010 and 2009, respectively. In January 2011, KU contributed $43 million to its pension plan. See Note 18, Subsequent Events, for further information.

See Note 9, Pension and Other Postretirement Benefit Plans, for further information on defined benefits including sensitivity analysis expressing potential changes in expected returns that would result from hypothetical changes to assumptions and estimates, expected rate of return assumptions and health care trends.

Asset Impairment

KU performs a quarterly review to determine if an impairment analysis is required for long-lived assets that are subject to depreciation or amortization. This review identifies changes in circumstances indicating that a long-lived asset's carrying value may not be recoverable. An impairment analysis will be performed if warranted based on the review. For these long-lived assets, such events or changes in circumstances which may indicate an impairment analysis is required include:

- a significant decrease in the market price of an asset;
- a significant adverse change in the manner in which an asset is being used or in its physical condition;
- a significant adverse change in legal factors or in the business climate;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset;
- a current-period operating or cash flow loss combined with a history of losses or a forecast that demonstrates continuing losses;
- a current expectation that, more likely than not, an asset will be sold or otherwise disposed of before the end of its previously estimated useful life; and
- a significant change in the physical condition of an asset.

For a long-lived asset, impairment is recognized when the carrying amount of the asset is not recoverable and exceeds its fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying value to its estimated fair value. Management must make significant judgments to estimate future cash flows including the useful lives of long-lived assets, the fair value of the assets and management's intent to use the assets. KU did not recognize an impairment of any long-lived asset in 2010.

Effective with PPL's acquisition of LKE on November 1, 2010, KU recorded $607 million of goodwill. At December 31, 2010, KU's goodwill remained unchanged. GAAP requires goodwill to be tested for impairment on an annual basis or more frequently if events or circumstances indicate that assets may be impaired. KU performs its annual goodwill impairment test in the fourth quarter. See Note 7, Goodwill and Intangible Assets, for further discussion.

Goodwill is tested for impairment using a two-step approach. In step 1, the Company identifies a potential impairment by comparing the estimated fair value of the Company (the goodwill reporting unit) to its carrying value, including goodwill, on the measurement date. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.

The second step requires a calculation of the implied fair value of goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill in a business combination. That is, the estimated fair value is allocated to all of KU's assets and liabilities as if KU had been acquired in a business combination and the estimated fair value of KU was the price paid. The excess of the estimated fair value of KU over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of goodwill is then compared with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of the reporting unit's goodwill.

Determining the fair value of KU is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions can include revenue growth rates and operating margins used to calculate projected future cash flows, risk adjusted discount rates and future economic and market conditions.

KU tested goodwill for impairment in the fourth quarter of 2010 and no impairment was recognized. See Note 7, Goodwill and Intangible Assets, for further discussion.

Loss Accruals

KU accrues losses for the estimated impacts of various conditions, situations or circumstances involving uncertain or contingent future outcomes. For loss contingencies, the loss must be accrued if (1) information is available that indicates it is probable that a loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." KU does not record the accrual of contingencies that might result in gains, unless recovery is assured. KU continuously assesses potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events.

The accounting aspects of estimated loss accruals include (1) the initial identification and recording of the loss, (2) the determination of triggering events for reducing a recorded loss accrual and (3) the ongoing assessment as to whether a recorded loss accrual is sufficient. All three of these aspects require significant judgment by KU's management. KU uses its internal expertise and outside experts (such as lawyers and engineers), as necessary, to help estimate the probability that a loss has been incurred and the amount or range of the loss.

KU has identified certain other events that could give rise to a loss, but that do not meet the conditions for accrual. Such events are disclosed, but not recorded, when it is reasonably possible that a loss has been incurred. Accounting guidance defines "reasonably possible" as cases in which "the future event or events occurring is more than remote, but less than likely to occur." See Note 13, Commitments and Contingencies, for disclosure of other potential loss contingencies that have not met the criteria for accrual.

When an estimated loss is accrued, KU identifies, where applicable, the triggering events for subsequently adjusting the loss accrual. The triggering events generally occur when the contingency has been resolved and the actual loss is incurred, or when the risk of loss has diminished or been eliminated. The following are some of the triggering events that provide for the adjustment of certain recorded loss accruals:

- Allowances for uncollectible accounts are reduced when accounts are written off after prescribed collection procedures have been exhausted, a better estimate of the allowance is determined or underlying amounts are ultimately collected.
- Environmental and other litigation contingencies are reduced when the contingency is resolved, KU makes actual payments, a better estimate of the loss is determined or the loss is no longer considered probable.

KU reviews its loss accruals on a regular basis to assure that the recorded potential loss exposures are appropriate. This involves ongoing communication and analyses with internal and external legal counsel, engineers, operation management and other parties. This review may result in the increase or decrease of the loss accrual.

Asset Retirement Obligations

KU is required to recognize a liability for legal obligations associated with the retirement of long-lived assets. The initial obligation is measured at its estimated fair value. An equivalent amount is recorded as an increase in the value of the capitalized asset and allocated to expense over the useful life of the asset. Until the obligation is settled, the liability is increased, through the recognition of accretion expense in the Statements of Income, for changes in the obligation due to the passage of time. An offsetting regulatory asset is recognized to reverse the depreciation and accretion expense related to the ARO such that there is no income statement impact. The regulatory asset is relieved when the ARO has been settled. An ARO must be recognized when incurred if the fair value of the ARO can be reasonably estimated.

In determining AROs, management must make significant judgments and estimates to calculate fair value. Fair value is developed using an expected present value technique based on assumptions of market participants that considers estimated retirement costs in current period dollars that are inflated to the anticipated retirement date and then discounted back to the date the ARO was incurred. Changes in assumptions and estimates included within the calculations of the fair value of AROs could result in significantly different results than those identified and recorded in the financial statements. Estimated ARO costs and settlement dates, which affect the carrying value of various AROs and the related assets, are reviewed periodically to ensure that any material changes are incorporated into the estimate of the obligations. Any change to the capitalized asset is amortized over the remaining life of the associated long-lived asset. See Note 4, Asset Retirement Obligations, for further information on AROs.

At December 31, 2010, KU had AROs totaling $54 million recorded on the Balance Sheets. Of the total amount, $35 million, or 65%, relates to KU's ash ponds and landfills. The most significant assumptions surrounding AROs are the forecasted retirement costs, the discount rates and the inflation rates. A variance in the forecasted retirement costs, the discount rates or the inflation rates could have a significant impact on the ARO liabilities.

The following chart reflects the sensitivities related to KU's ARO liabilities for ash ponds and landfills as of December 31, 2010:

	Change in Assumption	Impact on ARO Liability
Retirement cost	10%/(10)%	$4/$(4)
Discount rate	0.25%/(0.25)%	$(2)/$1
Inflation rate	0.25%/(0.25)%	$2/$(2)

Income Tax Uncertainties

Significant management judgment is required in developing KU's provision for income taxes primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and the determination of deferred tax assets, liabilities and valuation allowances.

Significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. KU evaluates its tax positions following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. KU's management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, KU reassesses its uncertain tax positions by considering information known at the reporting date. Based on management's assessment of new information, KU may subsequently recognize a tax benefit for a previously unrecognized tax position, de-recognize a previously recognized tax position or re-measure the benefit of a previously recognized tax position. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact KU financial statements in the future.

The balance sheet classification of unrecognized tax benefits and the need for valuation allowances to reduce deferred tax assets also require significant management judgment. KU classifies unrecognized tax benefits as current, to the extent management expects to settle an uncertain tax position, by payment or receipt of cash, within one year of the reporting date. Valuation allowances are initially recorded and reevaluated each reporting period by assessing the likelihood of the ultimate realization of a deferred tax asset. Management considers a number of factors in assessing the realization of a deferred tax asset, including the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies. Any tax planning strategy utilized in this assessment must meet the recognition and measurement criteria utilized by KU to account for an uncertain tax position. See Note 10, Income Taxes, for the required disclosures.

At December 31, 2010, KU's existing reserve exposure to either increases or decreases in unrecognized tax benefits during the next 12 months is less than $1 million. This change could result from subsequent recognition, de-recognition and/or changes in the measurement of uncertain tax positions. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitations.

Purchase Price Allocation

On November 1, 2010, PPL completed the acquisition of KU's parent. In accordance with accounting guidance on business combinations, the identifiable assets acquired and the liabilities assumed were measured at fair value at the acquisition date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The excess of the purchase price over the estimated fair value of the identifiable net assets is recorded as goodwill.

The determination and allocation of fair value to the identifiable assets acquired and liabilities assumed was based on various assumptions and valuation methodologies requiring considerable management judgment, including estimates based on key assumptions of the acquisition and historical and current market data. The most significant variables in these valuations were the discount rates, the number of years on which to base cash flow projections, as well as the assumptions and estimates used to determine cash inflows and outflows. Although the assumptions applied were reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

For purposes of measuring the fair value of the majority of property, plant and equipment and regulatory assets acquired and regulatory liabilities assumed, KU determined that fair value was equal to net book value at the acquisition date because KU’s operations are conducted in a regulated environment and the regulatory commissions allow for earning a rate of return on the book value of a majority of the regulated asset bases at rates determined to be fair and reasonable. As there is no current prospect for deregulation in KU’s operating area, it is expected that these operations will remain in a regulated environment for the foreseeable future, therefore management has concluded that the use of these assets in the regulatory environment represents their highest and best use and a market participant would measure the fair value of these assets using the regulatory rate of return as the discount rate, thus resulting in fair value equal to book value.

The fair value of intangible assets and liabilities (e.g. contracts that have favorable or unfavorable terms relative to market), including coal contracts and power purchase agreements, as well as emission allowances, have been reflected on the Balance Sheets with offsetting regulatory assets or liabilities. Prior to the acquisition, KU recovered the cost of the coal contracts, power purchases and emission allowances and this rate treatment will continue after the acquisition. As a result, management believes the regulatory assets and liabilities created to offset the fair value adjustments meet the recognition criteria established by existing accounting guidance and eliminate any ratemaking impact of the fair value adjustments. KU’s customer rates will continue to reflect these items (e.g. coal, purchased power, emission allowances) at their original contracted prices.

KU also considered whether a separate fair value should be assigned to KU’s rights to operate within its various electric service areas but concluded that these rights only provided the opportunity to earn a regulated return and barriers to market entry, which in management’s judgment is not considered a separately identifiable intangible asset under applicable accounting guidance; rather, it is considered going-concern value, or goodwill.

See Note 2, Acquisition by PPL and Note 7, Goodwill and Intangible Assets, for further information.

New Accounting Guidance

Recent accounting pronouncements affecting KU are detailed in Note 1, Summary of Significant Accounting Policies.

Other Information

PPL's Audit Committee has approved the audit fees and audit-related services. The audit-related services include services in connection with regulatory filings, reviews of offering documents and registration statements and internal control reviews.

Management’s Report of Internal Controls Over Financial Reporting

Through December 31, 2010, the Company was 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 its internal control over financial reporting pursuant to Section 404 of the Act. However, management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. 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 GAAP 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.

Management has assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2010, 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, 2010, the Company’s internal control over financial reporting was effective based on those criteria.

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2010, has been audited by PricewaterhouseCoopers LLP, an independent accounting firm, as stated in its report which is included herein.

Kentucky Utilities Company
Statements of Income
(millions)

	Successor	Predecessor		
	November 1 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31 2009	Year Ended December 31 2008
Operating revenues (Note 15)	$ 263	$ 1,248	$ 1,355	$ 1,405
Operating expenses:				
Fuel for electric generation	78	417	434	513
Power purchased (Notes 13 and 15)	28	147	199	221
Other operation and maintenance expenses	66	280	320	275
Depreciation and amortization	26	119	133	136
Total operating expenses	198	963	1,086	1,145
Operating income	65	285	269	260
Equity in earnings of unconsolidated venture (Note 1)	-	3	1	30
Interest expense (Notes 11 and 12)	8	6	6	14
Interest expense to affiliated companies (Notes 11, 12 and 15)	2	62	69	58
Other income (expense) - net	-	(2)	5	8
Income before income taxes	55	218	200	226
Income tax expense (Note 10)	20	78	67	68
Net income	$ 35	$ 140	$ 133	$ 158

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

Kentucky Utilities Company
Statements of Retained Earnings
(millions)

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Balance at beginning of period	$ 1,418	$ 1,328	$ 1,195	$ 1,037
Effect of PPL acquisition	(1,418)	-	-	-
Balance at November 1, 2010	-	1,328	1,195	1,037
Net income	35	140	133	158
Cash dividends declared (Note 15)	-	(50)	-	-
Balance at end of period	$ 35	$ 1,418	$ 1,328	$ 1,195

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

Kentucky Utilities Company
Statements of Comprehensive Income
(millions)

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Net income	$ 35	$ 140	$ 133	$ 158
Equity investee's other comprehensive loss, net of tax expense of $0, $1, $0 and $0, respectively (Note 1)	-	(2)	-	-
Comprehensive income	$ 35	$ 138	$ 133	$ 158

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

Kentucky Utilities Company
Balance Sheets
(millions)

Assets	Successor December 31, 2010	Predecessor December 31, 2009
Current assets:		
Cash and cash equivalents	$ 3	$ 2
Accounts receivable (less allowance for doubtful accounts: 2010, $6; 2009, $3):		
Customer	90	79
Affiliated companies	12	9
Other	20	18
Unbilled revenues	89	76
Fuel, materials and supplies:		
Fuel (predominantly coal)	95	98
Other materials and supplies	41	39
Other intangible assets	22	-
Regulatory assets (Note 3)	9	32
Prepayments and other current assets	15	13
Total current assets	396	366
Investment in unconsolidated venture (Note 1)	30	12
Property, plant and equipment:		
Regulated utility plant – electric	3,630	4,892
Accumulated depreciation	(14)	(1,838)
Net regulated utility plant	3,616	3,054
Construction work in progress	955	1,257
Property, plant and equipment – net	4,571	4,311
Deferred debits and other assets:		
Regulatory assets (Notes 3 and 9):		
Pension benefits	117	105
Other regulatory assets	105	117
Goodwill (Notes 2 and 7)	607	-
Other intangibles assets (Notes 2 and 7)	175	-
Cash surrender value of key man life insurance	39	38
Other assets	19	7
Total deferred debits and other assets	1,062	267
Total assets	$ 6,059	$ 4,956

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

Kentucky Utilities Company
Balance Sheets (continued)
(millions)

Liabilities and Equity	Successor December 31, 2010	Predecessor December 31, 2009
Current liabilities:		
Current portion of long-term debt (Note 11)	$ -	$ 228
Current portion of long-term debt to affiliated company (Notes 11 and 15)	-	33
Notes payable to affiliated companies (Notes 12 and 15)	10	45
Accounts payable	67	107
Accounts payable to affiliated companies (Note 15)	45	88
Accrued taxes	25	14
Customer deposits	23	22
Regulatory liabilities (Note 3)	41	4
Accrued interest	8	1
Employee accruals	15	13
Other current liabilities	18	14
Total current liabilities	252	569
Long-term debt:		
Long-term bonds (Note 11)	1,841	123
Long-term debt to affiliated company (Notes 11 and 15)	-	1,298
Total long-term debt	1,841	1,421
Deferred credits and other liabilities:		
Deferred income taxes (Note 10)	376	336
Accumulated provision for pensions (Note 9)	113	160
Investment tax credits (Note 10)	104	104
Asset retirement obligations (Notes 3 and 4)	54	34
Regulatory liabilities (Note 3):		
Accumulated cost of removal of utility plant	348	335
Other regulatory liabilities	186	25
Other liabilities	94	20
Total deferred credits and other liabilities	$ 1,275	$ 1,014

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

Kentucky Utilities Company
Balance Sheets (continued)
(millions)

	Successor December 31, 2010	Predecessor December 31, 2009
Equity:		
Common stock, without par value – authorized 80,000,000 shares, outstanding 37,817,878 shares	$ 308	$ 308
Additional paid-in capital	2,348	316
Retained earnings:		
Retained earnings	35	1,318
Undistributed earnings from unconsolidated venture	-	10
Total equity	2,691	1,952
Total liabilities and equity	$ 6,059	$ 4,956

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

Kentucky Utilities Company
Statements of Cash Flows
(millions)

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Cash flows from operating activities:				
Net income	$ 35	$ 140	$ 133	$ 158
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	26	119	133	136
Deferred income taxes – net	4	23	50	(13)
Investment tax credits (Note 10)	-	-	24	25
Provision for pension and postretirement benefits	5	13	26	10
Other – net	2	(3)	-	1
Change in current assets and liabilities:				
Accounts receivable	(15)	13	11	13
Unbilled revenues	(32)	19	(15)	(1)
Fuel, materials and supplies	5	(6)	(28)	(33)
Regulatory assets	(2)	19	-	-
Other current assets	9	(9)	(3)	(1)
Accounts payable	9	(17)	(32)	2
Accounts payable to affiliated companies	(41)	46	29	7
Accrued taxes	15	(5)	6	8
Regulatory liabilities	12	3	-	-
Other current liabilities	(2)	2	2	(3)
Pension and postretirement funding (Note 9)	(2)	(18)	(20)	(5)
Storm restoration regulatory asset (Note 3)	-	-	(57)	(2)
Other regulatory assets	1	8	-	-
Other regulatory liabilities	-	(10)	-	-
Other – net	(1)	7	(6)	(10)
Net cash provided by (used in) operating activities	28	344	253	292
Cash flows from investing activities:				
Construction expenditures	(87)	(292)	(516)	(686)
Purchases of assets from affiliate	-	(48)	-	(10)
Change in restricted cash	-	-	9	1
Net cash provided by (used in) investing activities	$ (87)	$ (340)	$ (507)	$ (695)

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

Kentucky Utilities Company
Statements of Cash Flows (continued)
(millions)

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010,	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Cash flows from financing activities:				
Issuance of bonds (Note 11)	$ 1,489	$ -	$ -	$ 77
Short-term borrowings from affiliated company – net (Note 12)	(83)	48	29	(7)
Other borrowings from affiliated companies (Note 11)	1,331	-	150	250
Repayments on other borrowings from affiliated companies (Note 11)	(1,331)	-	-	-
Repayments to E.ON affiliate (Note 11)	(1,331)	-	-	-
Debt issuance costs	(17)	-	-	-
Retirement of pollution control bonds	-	-	-	(60)
Acquisition of outstanding bonds	-	-	-	(80)
Reissuance of reacquired bonds	-	-	-	63
Retirement of reacquired bonds	-	-	-	17
Payment of dividends	-	(50)	-	-
Capital contribution (Note 15)	-	-	75	145
Net cash provided by (used in) financing activities	58	(2)	254	405
Change in cash and cash equivalents	(1)	2	-	2
Cash and cash equivalents at beginning of period	4	2	2	-
Cash and cash equivalents at end of period	$ 3	$ 4	$ 2	$ 2
Supplemental disclosures of cash flow information:				
Cash paid (received) during the year for:				
Interest – net of amount capitalized	$ 22	$ 62	$ 70	$ 66
Income taxes – net	(12)	74	(9)	46

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

Kentucky Utilities Company
Statements of Capitalization
(millions)

	Successor December 31, 2010	Predecessor December 31, 2009
Long-term debt (Note 11):		
Pollution control series:		
Mercer Co. 2000 Series A, due May 1, 2023, variable %................	$ 13	$ 13
Carroll Co. 2007 Series A, due February 1, 2026, 5.75%................	18	18
Carroll Co. 2002 Series A, due February 1, 2032, variable %.........	21	21
Carroll Co. 2002 Series B, due February 1, 2032, variable %.........	2	2
Muhlenberg Co. 2002 Series A, due February 1, 2032, variable %.	2	2
Mercer Co. 2002 Series A, due February 1, 2032, variable %.........	8	8
Carroll Co. 2008 Series A, due February 1, 2032, variable %.........	78	78
Carroll Co. 2002 Series C, due October 1, 2032, variable %...........	96	96
Carroll Co. 2006 Series B, due October 1, 2034, variable %...........	54	54
Trimble Co. 2007 Series A, due March 1, 2037, 6.0%....................	9	9
Carroll Co. 2004 Series A, due October 1, 2034, variable %	50	50
Total pollution control series..	351	351
First mortgage bonds:		
First mortgage bond 2015 Series, due November 1, 2015, 1.625%	250	-
First mortgage bond 2020 Series, due November 1, 2020, 3.25%	500	-
First mortgage bond 2040 Series, due November 1, 2040, 5.125%	750	-
Total first mortgage bonds..	$ 1,500	$ -

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

Kentucky Utilities Company
Statements of Capitalization (continued)
(millions)

	Successor December 31, 2010	Predecessor December 31, 2009
Long-term debt to affiliated company:		
Due November 24, 2010, 4.24%, unsecured	$ -	$ 33
Due January 16, 2012, 4.39%, unsecured	-	50
Due April 30, 2013, 4.55%, unsecured	-	100
Due August 15, 2013, 5.31%, unsecured	-	75
Due December 19, 2014, 5.45%, unsecured	-	100
Due July 8, 2015, 4.735%, unsecured	-	50
Due December 21, 2015, 5.36%, unsecured	-	75
Due October 25, 2016, 5.675%, unsecured	-	50
Due April 24, 2017, 5.28%, unsecured	-	50
Due June 20, 2017, 5.98%, unsecured	-	50
Due July 25, 2018, 6.16%, unsecured	-	50
Due August 27, 2018, 5.645%, unsecured	-	50
Due December 17, 2018, 7.035%, unsecured	-	75
Due July 29, 2019, 4.81%, unsecured	-	50
Due October 25, 2019, 5.71%, unsecured	-	70
Due November 25, 2019, 4.445%, unsecured	-	50
Due February 7, 2022, 5.69%, unsecured	-	53
Due May 22, 2023, 5.85%, unsecured	-	75
Due September 14, 2028, 5.96%, unsecured	-	100
Due June 23, 2036, 6.33%, unsecured	-	50
Due March 30, 2037, 5.86%, unsecured	-	75
Total long-term debt to affiliated company	-	1,331
Total long-term debt outstanding	1,851	1,682
Purchase accounting adjustments and discounts	(10)	-
Less current portion of long-term debt	-	261
Long-term debt	$ 1,841	$ 1,421

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

Kentucky Utilities Company
Statements of Capitalization (continued)
(millions)

	Successor December 31, 2010	Predecessor December 31, 2009
Common equity:		
Common stock, without par value – authorized 80,000,000 shares, outstanding 37,817,878 shares	$ 308	$ 308
Additional paid-in-capital	2,348	316
Retained earnings:		
Retained earnings	35	1,318
Undistributed subsidiary earnings	-	10
Total retained earnings	35	1,328
Total common equity	2,691	1,952
Total capitalization	$ 4,532	$ 3,373

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

Kentucky Utilities Company
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

General

Terms and abbreviations are explained in the index of abbreviations. Dollars are in millions unless otherwise noted.

Business

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU provides electric service to approximately 514,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in five counties in southwestern Virginia and less than ten customers in Tennessee. KU's service area covers approximately 6,600 noncontiguous square miles. Approximately 98% of the electricity generated by KU is produced by its coal-fired electric generating stations. The remainder is generated by natural gas and oil fueled CTs and a hydroelectric power plant. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

On November 1, 2010, KU became an indirect wholly owned subsidiary of PPL, when PPL acquired all of the outstanding limited liability company interests in the Company's direct parent, LKE, from E.ON US Investments Corp. LKE, a Kentucky limited liability company, also owns the affiliate, LG&E, a regulated utility engaged in the generation, transmission, distribution and sale of electric energy and distribution and sale of natural gas in Kentucky. Following the acquisition, the Company's business has not changed. KU and LG&E are continuing as subsidiaries of LKE, which is now an intermediary holding company in the PPL group of companies.

Headquartered in Allentown, Pennsylvania, PPL is an energy and utility holding company that was incorporated in 1994. Through its subsidiaries, PPL owns or controls about 19,000 megawatts of generating capacity in the U.S., sells energy in key U.S. markets and delivers electricity and natural gas to about 5.3 million customers in the U.S. and the U.K.

Basis of Accounting

KU's basis of accounting incorporates the business combinations guidance of the FASB ASC as of the date of the acquisition, which requires the recognition and measurement of identifiable assets acquired and liabilities assumed at fair value as of the acquisition date. KU's financial statements and accompanying footnotes have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor covers the time period prior to November 1, 2010. Successor covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL accounting policies, which are discussed below, and the cost basis of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Predecessor period are not comparable to the Successor period.

Despite the separate presentation, the core operations of the Company have not changed. See Note 2, Acquisition by PPL, for information regarding the acquisition and the purchase accounting adjustments.

Changes in Classification

Certain reclassification entries have been made to the Predecessor's previous years' financial statements to conform to the 2010 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows. These reclassifications mainly consist of those necessary to identify amounts for prior periods that are separately disclosed in the financial statements.

Regulatory Accounting

KU is a cost-based rate-regulated utility. As a result, the financial statements reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise be charged to expense. Likewise, regulatory liabilities may be recognized for obligations expected to be returned through future regulated customer rates. The effect of such transactions or events would otherwise be reflected as income, or, in certain cases, regulatory liabilities are recorded based on the understanding with the regulator that current rates are being set to recover costs that are expected to be incurred in the future. The regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. Offsetting regulatory assets or liabilities for fair value purchase accounting adjustments have also been recorded to eliminate any ratemaking impact of the fair value adjustments. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC, Kentucky Commission, Virginia Commission or the Tennessee Regulatory Authority. See Note 3, Rates and Regulatory Matters, for additional detail regarding regulatory assets and liabilities.

Management's Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Derivative Financial Instruments

KU enters into energy trading contracts to manage price risk and to maximize the value of power sales from the physical assets it owns. The energy trading contracts are non-hedging derivatives and the change in value is recognized in earnings on a mark-to-market basis. The Predecessor and Successor presentation are both appropriate under GAAP. The Predecessor and Successor determine the classification of energy trading contracts based on the settlement date of the individual contracts. Energy trading contracts classified as current are recognized in "Prepayments and other current assets" or "Other current liabilities" on the Balance Sheets. Energy trading contracts classified as non-current are recognized in "Other assets" or "Other liabilities" on the Balance Sheets. Cash inflows and outflows related to derivative instruments are included as a component of operating activity on the Statements of Cash Flows, due to the underlying nature of the hedged items.

The Company does not net collateral against derivative instruments.

See Note 5, Derivative Financial Instruments, and Note 6, Fair Value Measurements, for further information on derivative instruments.

Revenue and Accounts Receivable

The operating revenues line item in the Statements of Income contains revenues from the following:

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Residential	$ 106	$ 440	$ 480	$ 462
Industrial and commercial	117	588	637	636
Municipals	15	88	91	92
Other retail	20	114	118	108
Wholesale	5	18	29	107
	$ 263	$ 1,248	$ 1,355	$ 1,405

Revenue Recognition

Revenues are recorded based on service rendered to customers through month-end. Operating revenues are recorded based on energy deliveries through the end of the calendar month. Unbilled retail revenues result because customers' meters are read and bills are rendered throughout the month, rather than all being read at the end of the month. Unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh by the estimated average cents per kWh.

Accounts Receivable

Accounts receivable are reported in the Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts.

Allowance for Doubtful Accounts

The allowance for doubtful accounts included in "Accounts receivable – customer" is based on the ratio of the amounts charged-off during the last twelve months to the retail revenues billed over the same period, multiplied by the retail revenues billed over the last four months. Accounts with no payment activity are charged-off after four months, although collection efforts continue thereafter. The allowance for doubtful accounts included in "Accounts receivable – other" is composed of accounts aged more than four months. Accounts are written off as management determines them uncollectible.

The changes in the allowance for doubtful accounts were:

	Successor	Predecessor		
	December 31, 2010	October 31, 2010	December 31, 2009	December 31, 2008
Balance at beginning of period (a)	$ -	$ 3	$ 3	$ 2
Charged to income	1	(6)	(4)	(2)
Charged to balance sheets	5	6	4	3
Balance at end of period	$ 6	$ 3	$ 3	$ 3

(a) Successor beginning of period reflects revaluation of accounts receivable due to purchase accounting.

Cash

Cash Equivalents

All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Restricted Cash

Bank deposits and other cash equivalents that are restricted by agreement or that have been clearly designated for a specific purpose are classified as restricted cash. The change in restricted cash is reported as an investing activity on the Statements of Cash Flows. On the Balance Sheets, restricted cash is included in "Prepayments and other current assets". For KU, the December 31, 2010, balance of restricted cash was less than $1 million.

Fair Value Measurements

KU values certain financial assets and liabilities at fair value. Generally, the most significant fair value measurements relate to derivative assets and liabilities, investments in securities including investments in the pension and postretirement benefit plans and cash and cash equivalents. KU uses, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques) and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions that market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

KU prioritizes fair value measurements for disclosure by grouping them into one of three levels in the fair value hierarchy. The highest priority is given to measurements using level 1 inputs. The appropriate level assigned to a fair value measurement is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are as follows:

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

Assessing the significance of a particular input requires judgment that considers factors specific to the asset or liability. As such, KU's assessment of the significance of a particular input may affect how the assets and liabilities are classified within the fair value hierarchy. See Note 5, Derivatives Financial Instruments, and Note 6, Fair Value Measurements, for further information on fair value measurements.

Investments

Equity Method Investment

KU's equity method investment, included in "Investment in unconsolidated venture" on the Balance Sheets, consists of its investment in EEI. KU owns 20% of the common stock of EEI, which owns and operates a 1,002 Mw summer capacity coal-fired plant and a 74 Mw summer capacity natural gas facility in southern Illinois. Through a power marketer affiliated with its majority owner, EEI sells its output to third parties. Although KU holds investment interest in EEI, it is not the primary beneficiary and is therefore not consolidated into the Company's financial statements. KU's investment in EEI is accounted for under the equity method of accounting and as of December 31, 2010 and 2009, totaled $30 million and $12 million, respectively. KU's direct exposure to loss as a result of its involvement with EEI is generally limited to the value of its investment. See Note 2, Acquisition by PPL, for further discussion regarding purchase accounting adjustments recognized for KU's investment in EEI.

The results of operations and financial position of EEI, KU's equity method investment, are summarized below.

Condensed income statement information for the years ended December 31 is as follows:

	2010 (unaudited)	2009	2008
Net sales	$ 343	$ 297	$ 514
Net income	16	10	142
KU's equity in earnings of EEI	3	1	30

Condensed balance sheet information as of December 31 is as follows:

	2010 (unaudited)	2009
Current assets	$ 62	$ 84
Long-lived assets	181	178
Total assets	$ 243	$ 262
Current liabilities	$ 113	$ 166
Long-term liabilities	72	50
Equity	58	46
Total liabilities and equity	$ 243	$ 262

Cost Method Investment

KU's cost method investment, included in "Investments in unconsolidated venture" on the Balance Sheets, consists of the Company's investment in OVEC. KU and 11 other electric utilities are owners of OVEC, which is located in Piketon, Ohio. OVEC owns and operates two coal-fired power plants, Kyger Creek Station in Ohio and Clifty Creek Station in Indiana with combined nameplate generating capacities of 2,390 Mw. OVEC's power is currently supplied to KU and 13 other companies affiliated with the various owners. Pursuant to current contractual agreements, KU owns 2.5% of OVEC's common stock and is contractually entitled to 2.5% of OVEC's output. Based on nameplate generating capacity, this would be approximately 60 Mw.

As of December 31, 2010 and 2009, KU's investment in OVEC totaled less than $1 million. KU is not the primary beneficiary of OVEC; therefore, it is not consolidated into the Company's financial statements and is accounted for under the cost method of accounting. The direct exposure to loss as a result of the Company's involvement with OVEC is generally limited to the value of its investment; however, KU may be conditionally responsible for a pro-rata share of certain OVEC obligations. See Note 2, Acquisition by PPL, and Note 13, Commitments and Contingencies, for further discussion regarding purchase accounting adjustments recognized, and KU's ownership interest and power purchase rights.

Long-Lived and Intangible Assets

Regulated Utility Plant

Regulated utility plant was stated at original cost for the Predecessor and adjusted to the net book value on November 1, 2010, the acquisition date, for the Successor. KU determined that fair value was equal to net book value at the acquisition date since KU's operations are conducted in a regulated environment. Original cost includes payroll-related costs such as taxes, fringe benefits and administrative and general costs. Construction work in progress has been included in the rate base for determining retail customer rates. KU has not recorded significant allowance for funds used during construction in accordance with FERC.

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

Capitalized Software Cost

Included in "Property, plant and equipment" on the Balance Sheets are capitalized costs of software projects that were developed or obtained for internal use. These capitalized costs are amortized ratably over the expected lives of the projects when they become operational, generally not to exceed five years. Following are capitalized software costs and the accumulated amortization:

Successor		Predecessor	
December 31, 2010		December 31, 2009	
Carrying Amount	Accumulated Amortization (a)	Carrying Amount	Accumulated Amortization
$ 40	$ 1	$ 52	$ 13

(a) The accumulated amortization as of November 1, 2010, was netted against the carrying amount of the software as the fair value was determined to be equal to net book value for property, plant and equipment.

Amortization expense of capitalized software costs was as follows:

Successor	Predecessor		
November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31,	
		2009	2008
$ 1	$ 6	$ 6	$ 5

The amortization of capitalized software is included in "Depreciation and amortization" on the Statements of Income.

Depreciation and Amortization

Depreciation is provided on the straight-line method over the estimated service lives of depreciable plant. The amounts provided as a percentage of depreciable plant were approximately:

Year	Percentage
2010	4.1%
2009	2.6%
2008	3.0%

Of the amount provided for depreciation, the following were related to the retirement, removal and disposal costs of long lived assets:

Year	Percentage
2010	0.6%
2009	0.4%
2008	0.5%

Goodwill, Intangible Assets and Asset Impairment

KU performs a quarterly review to determine if an impairment analyses is required for long-lived assets that are subject to depreciation or amortization. This review identifies changes in circumstances indicating that a long-lived asset's carrying value may not be recoverable. An impairment analysis will be performed if warranted, based on the review.

For a long-lived asset to be held and used, impairment exists when the carrying amount exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the asset is impaired, an impairment loss is recorded to adjust the asset's carrying amount to its fair value.

KU, as the result of PPL's acquisition of LKE, recorded the fair value of its coal contracts, emission allowances, EEI investment and OVEC power purchase contract. The difference between the fair value and the cost for these assets is being amortized over their useful lives based upon the pattern in which the economic benefits of the intangible assets are consumed or otherwise used. When determining the useful life of an intangible asset, including intangible assets that are renewed or extended, KU considers the expected use of the asset, the expected useful life of other assets to which the useful life of the intangible asset may relate and legal, regulatory, or contractual provisions that may limit the useful life. See Note 2, Acquisition by PPL, for methods used to determine the long-lived intangible assets' fair values. See Note 7, Goodwill and Intangible Assets, for the fair value amounts and amortization periods. The current intangible assets and long-term intangible assets are included in "Other intangible assets" on the Balance Sheets.

The Predecessor reported emission allowances in "Other materials and supplies" on the Balance Sheets. The emission allowances were not amortized; rather, they were expensed when consumed. The Predecessor did not recognize the coal contracts or the OVEC power purchase contract as these intangible assets were not derivatives.

In connection with PPL's acquisition of LKE, KU recorded goodwill on November 1, 2010. Goodwill represents the excess of the purchase price paid over the estimated fair value of the assets acquired and liabilities assumed in the acquisition of a business. Goodwill is tested annually for impairment during the fourth quarter and more frequently if management determines that a triggering event may have occurred that would more likely than not reduce the fair value of an operating unit below its carrying value. Goodwill impairment charges are not subject to rate recovery. See Note 7, Goodwill and Intangible Assets, for further discussion regarding the Company's goodwill and current test results.

Asset Retirement Obligations

KU recognizes various legal obligations associated with the retirement of long-lived assets as liabilities in the financial statements. Initially this obligation is measured at fair value. An equivalent amount is recorded as an increase in the value of the capitalized asset and allocated to expense over the useful life of the asset. Until the obligation is settled, the liability is increased, through the recognition of accretion expense in the Statements of Income, for changes in the obligation due to the passage of time. An offsetting regulatory asset is recognized to reverse the depreciation and accretion expense related to the ARO such that there is no income statement impact. The regulatory asset is relieved when the ARO has been settled. Estimated ARO costs and settlement dates, which affect the carrying value of various AROs and the related assets, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the obligations. See Note 4, Asset Retirement Obligations, for further information on AROs.

Defined Benefits

KU employees benefit from both funded and unfunded retirement benefit plans. An asset or liability is recorded to recognize the funded status of all defined benefit plans with an offsetting entry to regulatory assets or regulatory liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets.

The expected return on plan assets is determined based on the current level of expected return on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on the current asset allocation.

The discount rate used for pensions, postretirement and post-employment plans by the Predecessor was determined using the Mercer Yield Curve. The expected return on assets assumption was 7.75%. Gains and losses in excess of 10% of the greater of the plan’s projected benefit obligation or market value of assets were amortized on a straight-line basis over the average future service period of active participants. The market-related value of assets was equal to the fair market value of the assets.

The discount rate used by the Successor was determined by the Towers Watson Yield Curve based on the individual plan cash flows. The expected return on assets was reduced from 7.75% to 7.25%. The amortization period for the recognition of gains and losses for retirement plans was changed to reflect the Successor’s amortization policy. Under the Successor’s method, gains and losses in excess of 10% but less than 30% of the greater of the plan’s projected benefit obligation or market-related value of assets, are amortized on a straight-line basis over the average future service period of active participants. Gains and losses in excess of 30% of the plan’s projected benefit obligation or market-related value of assets are amortized on a straight-line basis over a period equal to one-half of the average future service period of active participants. The market-related value of assets for the qualified retirement plans will be equal to a five year smoothed asset value. Gains and losses in excess of the expected return will be phased-in over a five-year period, prospectively from November 1, 2010.

See Note 9, Pension and Other Postretirement Benefit Plans, for further information.

Other

Loss Accruals

Potential losses are accrued when information is available that indicates it is “probable” that a loss has been incurred, given the likelihood of uncertain future events, and the amount of the loss can be reasonably estimated. Accounting guidance defines “probable” as cases in which “the future event or events are likely to occur.” KU continuously assesses potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events.

KU does not record the accrual of contingencies that might result in gains unless recovery is assured.

Income Taxes

For the periods ended on or before October 31, 2010, KU was a subsidiary of E.ON U.S. and was part of E.ON U.S.’s direct parent’s, E.ON US Investments Corp., consolidated U.S. federal income tax return. On November 1, 2010, KU became a part of PPL’s consolidated U.S. federal income tax return.

Significant management judgment is required in developing KU’s provision for income taxes primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and the determination of deferred tax assets, liabilities and valuation allowances.

KU evaluates tax positions following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements of KU.

Deferred income taxes reflect the net future tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes, as well as the tax effects of net operating losses and tax credit carryforwards.

KU records valuation allowances to reduce deferred tax assets to the amounts that are more likely than not to be realized. KU considers the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies in initially recording and subsequently reevaluating the need for valuation allowances. If KU determines that it is able to realize deferred tax assets in the future in excess of recorded net deferred tax assets, adjustments to the valuation allowances increase income by reducing tax expense in the period that such determination is made. Likewise, if KU determines that it is not able to realize all or part of net deferred tax assets in the future, adjustments to the valuation allowances would decrease income by increasing tax expense in the period that such determination is made.

The provision for KU's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the regulators. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included on the Balance Sheets in "Regulatory liabilities".

KU defers investment tax credits when the credits are utilized and amortizes the deferred amounts over the average lives of the related assets.

See Note 10, Income Taxes, for further discussion regarding income taxes.

Leases

KU evaluates whether arrangements entered into contain leases for accounting purposes.

Materials and Supplies

Fuel and other materials and supplies inventories are accounted for using the average-cost method.

Fuel Costs

The cost of fuel for electric generation is charged to expense as used. See Note 3, Rates and Regulatory Matters, for a description of the FAC.

Debt

The Company's long-term debt includes $228 million of pollution control bonds, which are subject to tender for purchase at the option of the holder and to mandatory tender for purchase on the occurrence of certain events. The Successor has classified these bonds as long term because the Company has the intent and ability to utilize its $400 million credit facility, which matures in December 2014, to fund any mandatory purchases. Predecessor classified these bonds as current portion of long-term debt due to the tender for purchase provisions. The Predecessor presentation and the Successor presentation are both appropriate under GAAP. See Note 11, Long-Term Debt, and Note 12, Notes Payable and Other Short-Term Obligations, for more information on the Company's debt and credit facilities.

Unamortized Debt Expense

Debt expense is capitalized and amortized over the lives of the related bond issues using the straight line method, which approximates the effective interest method. Depending on the type of expense, the Successor capitalized debt expenses in long-term other regulatory assets or long-term other assets to align with the term of the debt the expenses were related. The Predecessor capitalized debt expenses in current or long-term other regulatory assets or other current or long-term other assets based on the amount of expense expected to be recovered within the next year through rate recovery. Both the Predecessor and the Successor amortize debt expenses over the lives of the related bond issues. The Predecessor presentation and the Successor presentation are both appropriate under regulatory practices and GAAP.

Recent Accounting Pronouncements

The following recent accounting pronouncement affected KU:

Fair Value Measurements

In January 2010, the FASB issued guidance related to fair value measurement disclosures requiring separate disclosure of amounts of significant transfers in and out of level 1 and level 2 fair value measurements and separate information about purchases, sales, issuances and settlements within level 3 measurements. This guidance is effective for the interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about the roll-forward of activity in level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. This guidance has no impact on the Company's results of operations, financial position, liquidity or disclosures.

Note 2 - Acquisition by PPL

On November 1, 2010, PPL completed its acquisition of LKE and its subsidiaries. The push-down basis of accounting was used to record the fair value adjustments of assets and liabilities on LKE at the acquisition date. PPL paid a cash consideration for LKE and its subsidiaries of $2,493 million as well as a capital contribution on November 1, 2010, of $1,565 million; included within this was the consideration paid for KU of $2,656 million. The allocation of the KU purchase price was based on the fair value of assets acquired and liabilities assumed.

The allocation of the purchase price to the fair value of assets acquired and liabilities assumed is as follows:

Current assets	$	364
Investments		30
Property, plant and equipment		4,531
Other intangible assets		178
Regulatory and other non-current assets		274
Current liabilities (excluding current portion of long-term debt)		(367)
Affiliated debt		(1,331)
Debt (current and non-current)		(352)
Other non-current liabilities		(1,278)
Net identifiable assets acquired		2,049
Goodwill		607
Total purchase price	$	2,656

Goodwill represents value paid for the rate regulated business of KU, which is located in a defined service area with a constructive regulatory environment, which provides for future investment, earnings and cash flow growth, as well as the talented and experienced workforce. KU's franchise values are being attributed to the going concern value of the business, and thus were recorded as goodwill rather than a separately identifiable intangible asset. None of the goodwill recognized is deductible for income tax purposes or included in regulated customer rates.

Adjustments to KU's assets and liabilities that contributed to goodwill were as follows:

The fair value adjustment on the EEI investment was calculated using the discounted cash flow valuation method. The result was an increase in KU's value of the investment in EEI; the fair value of EEI was calculated to be $30 million and a fair value adjustment of $18 million was recorded on KU. The fair value adjustment to EEI is amortized over the expected remaining useful life of plant and equipment at EEI, which is estimated to be over 20 years.

The pollution control bonds on KU had a fair value adjustment of $1 million. All variable bonds were valued at par while the fixed rate bonds were valued with a yield curve based on average credit spreads for similar bonds.

As a result of the purchase accounting associated with the acquisition, the following items had a fair value adjustment but no effect on goodwill as the offset was either a regulatory asset or liability. The regulatory asset or liability has been recorded to eliminate any ratemaking impact of the fair value adjustments:

- The value of OVEC was determined to be $39 million based upon an announced transaction by another owner. KU's stock was valued at less than $1 million and the power purchase agreement has been valued at $39 million. An intangible asset was recorded with the offset to regulatory liability and will be amortized using the units of production method until the power purchase agreement ends in March 2026.
- KU recorded an emission allowance intangible asset and regulatory liability as the result of adjusting the fair value of the emission allowances at KU. The emission allowance intangible of $9 million represents allocated and purchased SO_2 and NOx emission allowances that are unused as of the valuation date or allocated for use in future years. KU had previously recorded emission allowances as other materials and supplies. To conform to PPL's accounting policy all emission allowances are now recorded as intangible assets. The emission allowance intangible asset is amortized as the emission allowances are consumed, which is expected to occur through 2040.
- KU recorded a coal contract intangible asset of $145 million and non-current liability of $22 million on the Balance Sheets. An offsetting regulatory asset was recorded for those contracts with unfavorable terms relative to market. An offsetting regulatory liability was recorded for those contracts that had favorable terms relative to market. All coal contracts held by KU, wherein it had entered into arrangements to buy amounts of coal at fixed prices from counterparties at a future date, were fair valued. The intangible assets and other liabilities, as well as the regulatory assets and liabilities, are being amortized over the same terms as the related contracts, which expire through 2016.

The fair value of intangible assets and liabilities (e.g. contracts that have favorable or unfavorable terms relative to market), including coal contracts and power purchase agreements, as well as emission allowances, have been reflected on the Balance Sheets with offsetting regulatory assets or liabilities. Prior to the acquisition, KU recovered the cost of the coal contracts, power purchases and emission allowances and this rate treatment will continue after the acquisition. As a result, management believes the regulatory assets and liabilities created to offset the fair value adjustments meet the recognition criteria established by existing accounting guidance and eliminate any ratemaking impact of the fair value adjustments. KU’s customer rates will continue to reflect these items (e.g. coal, purchased power, emission allowances) at their original contracted prices.

KU also considered whether a separate fair value should be assigned to KU’s rights to operate within its various electric service areas but concluded that these rights only provided the opportunity to earn a regulated return and barriers to market entry, which in management’s judgment is not considered a separately identifiable intangible asset under applicable accounting guidance; rather, it is considered going-concern value, or goodwill.

Note 3 - Rates and Regulatory Matters

The Company is subject to the jurisdiction of the FERC, Kentucky Commission, Virginia Commission and the Tennessee Regulatory Authority in virtually all matters related to electric utility regulation and as such, its accounting is subject to the regulated operations guidance of the FASB ASC. Given its position in the marketplace and the status of regulation in Kentucky and Virginia, there are no plans or intentions to discontinue the application of the regulated operations guidance of the FASB ASC.

KU’s Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and notes payable) including certain regulatory adjustments to exclude non-regulated investments and environmental compliance plans recovered separately through the ECR mechanism. No regulatory assets or regulatory liabilities recorded at the time base rates were determined were excluded from the return on capitalization utilized in the calculation of Kentucky base rates. Therefore, a return is earned on all Kentucky regulatory assets existing at the time base rates were determined, except where such regulatory assets were offset by associated liabilities and thus, have no net impact on capitalization.

As a result of purchase accounting, certain fair value amounts, reflecting contracts that have favorable or unfavorable terms relative to market, were recorded on the Balance Sheets with offsetting regulatory assets or liabilities. Prior to the acquisition, KU recovered in customer rates the cost of the coal contracts, power purchases and emission allowances and this rate treatment will continue after the recognition criteria established by existing accounting guidance and eliminate any ratemaking impact of the fair value adjustments. KU’s customer rates will continue to reflect these items (e.g. coal, purchased power, emission allowances) at their original contracted prices.

KU’s Virginia base rates are calculated based on a return on rate base. All regulatory assets and liabilities are excluded from the return on rate base utilized in the calculation of Virginia base rates.

KU’s wholesale requirements rates for municipal customers are calculated based on annual updates to a rate formula that utilizes a return on rate base. All regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates.

2010 Purchase and Sale Agreement with PPL

On April 28, 2010, E.ON U.S. announced that a Purchase and Sale Agreement (the “Agreement”) had been entered into among E.ON US Investments Corp., PPL and E.ON.

The transaction was subject to customary closing conditions, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Act, receipt of required regulatory approvals (including the FERC and state regulators in Kentucky, Virginia and Tennessee) and the absence of injunctions or restraints imposed by governmental entities.

Change of control and financing-related applications were filed on May 28, 2010 with the Kentucky Commission and on June 15, 2010 with the Virginia Commission and the Tennessee Regulatory Authority. An application with the FERC was filed on June 28, 2010. During the second quarter of 2010, a number of parties were granted intervenor status in the Kentucky Commission proceedings and data request filings and responses occurred. Early termination of the Hart-Scott-Rodino waiting period was received on August 2, 2010.

A hearing in the Kentucky Commission proceedings was held on September 8, 2010 at which time a unanimous settlement agreement was presented. In the settlement, KU committed that no base rate increases would take effect before January 1, 2013. The KU rate increases that took effect on August 1, 2010, were not impacted by the settlement. Under the terms of the settlement, KU retains the right to seek approval for the deferral of "extraordinary and uncontrollable costs." Interim rate adjustments will continue to be permissible during that period for existing fuel, environmental and demand-side management cost trackers. The agreement also substitutes an acquisition savings shared deferral mechanism for the requirement that the Utilities file a synergies plan with the Kentucky Commission. This mechanism, which will be in place until the earlier of five years or the first day of the year in which a base rate increase becomes effective, permits KU to earn up to a 10.75% return on equity. Any earnings above a 10.75% return on equity will be shared with customers on a 50%/50% basis. On September 30, 2010, the Kentucky Commission issued an Order approving the transfer of ownership of KU via the acquisition of E.ON U.S. by PPL, incorporating the terms of the submitted settlement. On October 19, 2010 and October 21, 2010, respectively, Orders approving the acquisition of E.ON U.S. by PPL were received from the Virginia Commission and the Tennessee Regulatory Authority. The Commissions' Orders contained a number of other commitments with regard to operations, workforce, community involvement and other matters.

In mid-September 2010, KU and other applicants in the FERC change of control proceeding reached an agreement with the protesters, whereby such protests have been withdrawn. The agreement, which was filed for consideration with the FERC, includes various conditional commitments, such as a continuation of certain existing undertakings with protesters in prior cases, an agreement not to terminate certain KU municipal customer contracts prior to January 2017, an exclusion of any transaction-related costs from wholesale energy and tariff customer rates to the extent that KU has agreed not to seek the same transaction-related costs from retail customers and agreements to coordinate with protesters in certain open or ongoing matters. A FERC Order approving the transaction was received on October 26, 2010 and the transaction was completed November 1, 2010.

2010 Kentucky Rate Case

In January 2010, KU filed an application with the Kentucky Commission requesting an increase in electric base rates of approximately 12%, or $135 million annually. In June 2010, KU and all of the intervenors, except the AG, agreed to stipulations providing for an increase in electric base rates of $98 million annually and filed a request with the Kentucky Commission to approve such settlement. An Order in the proceeding was issued in July 2010, approving all the provisions in the stipulations, including a return on equity range of 9.75 – 10.75%. The new rates became effective on August 1, 2010.

Virginia Rate Case

In June 2009, KU filed an application with the Virginia Commission requesting an increase in electric base rates for its Virginia jurisdictional customers in an amount of $12 million annually or approximately 21%. The proposed increase reflected a proposed rate of return on rate base of 8.586% based on a return on equity of 12%. During December 2009, KU and the Virginia Commission Staff agreed to a Stipulation and Recommendation authorizing base rate revenue increases of $11 million annually and a return on rate base of 7.846% based on a 10.5% return on common equity. In March 2010, the Virginia Commission issued an Order approving the stipulation, with the increased rates to be put into effect as of April 1, 2010. As part of the stipulation, KU refunded $1 million in interim rate amounts in excess of the ultimate approved rates.

FERC Wholesale Rate Case

In September 2008, KU filed an application with the FERC for increases in electric base rates applicable to wholesale power sales contracts or interchange agreements involving, collectively, twelve Kentucky municipalities. The application requested a shift from an all-in stated unit charge rate to an unbundled formula rate, including an annual adjustment mechanism. In 2009, the FERC issued an Order approving a settlement among the parties in the case, incorporating increases of approximately 3% from prior rates and a return on equity of 11%. In May 2010, KU submitted to the FERC the proposed current annual adjustments to the formula rates which incorporated certain proposed increases. Updated rates, including certain further adjustments from a review process involving wholesale requirements customers, became effective as of July 1, 2010, subject to certain review procedures by the wholesale requirements customers and the FERC.

By mutual agreement, the parties' settlement of the 2008 application left outstanding the issue of whether KU must allocate to the municipal customers a portion of renewable resources it may be required to procure on behalf of its retail ratepayers. An Order was issued by the FERC in July 2010, indicating that KU is not required to allocate a portion of any renewable resources to the twelve municipalities, thus resolving the remaining issue.

2008 Kentucky Rate Case

In July 2008, KU filed an application with the Kentucky Commission requesting an increase in electric base rates. In January 2009, KU, the AG, the KIUC and all other parties to the rate case filed a settlement agreement with the Kentucky Commission, under which KU's electric base rates decreased by $9 million annually. An Order approving the settlement agreement was received in February 2009. The new rates were implemented effective February 6, 2009.

Regulatory Assets and Liabilities

The following regulatory assets and liabilities were included in the Balance Sheets as of December 31:

	Successor 2010	Predecessor 2009
Current regulatory assets:		
ECR (a)	$ -	$ 28
FAC (a)	-	1
Coal contracts (b)	4	-
MISO exit (c)	-	2
Other (d)	5	1
Total current regulatory assets	$ 9	$ 32
Non-current regulatory assets:		
Pension and postretirement benefits (e)	$ 117	$ 105
Other non-current regulatory assets:		
Storm restoration (c)	57	59
ARO (f)	2	30
Unamortized loss on bonds (c)	12	12
Coal contracts (b)	14	-
MISO exit (a)	5	9
Unamortized debt expense	5	-
Other (d)	10	7
Subtotal other non-current regulatory assets	105	117
Total non-current regulatory assets	$ 222	$ 222
Current regulatory liabilities:		
Coal contracts	$ 16	$ -
ECR	12	-
FAC	2	-
DSM	5	3
Emission allowances	6	-
Other (g)	-	1
Total current regulatory liabilities	$ 41	$ 4
Non-current regulatory liabilities:		
Accumulated cost of removal of utility plant	$ 348	$ 335
Other non-current regulatory liabilities:		
Coal contracts	126	-
OVEC power purchase contract	38	-
Deferred income taxes – net	6	9
Postretirement benefits	10	9
Other (g)	6	7
Subtotal other non-current regulatory liabilities	186	25
Total non-current regulatory liabilities	$ 534	$ 360

(a) The FAC and ECR regulatory assets have separate recovery mechanisms with recovery within twelve months.
(b) Offsetting regulatory asset for fair value purchase accounting adjustments. See Note 2, Acquisition by PPL, for information on the purchase accounting adjustments.
(c) These regulatory assets are recovered through base rates.
(d) Other regulatory assets include:
   - The CMRG and KCCS contributions, an EKPC FERC transmission settlement agreement and rate case expenses, which are recovered through base rates.
   - The FERC jurisdictional portion of the EKPC FERC transmission settlement agreement included in current and non-current regulatory assets, recovered through the application of the annual OATT formula rate updates.
   - FERC jurisdictional pension expense, which will be requested in a future FERC rate case.
   - Offsetting regulatory asset for fair value purchase accounting adjustment for leases. See Note 2, Acquisition by PPL, for information on the purchase accounting adjustments.
   - The Virginia levelized fuel factor, which is a separate recovery mechanism with recovery within twelve months.
(e) KU generally recovers this asset through pension expense included in the calculation of base rates.
(f) 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.
(g) Other regulatory liabilities includes the emission allowance purchase accounting offset, MISO exit and a change in accounting method for FERC jurisdictional spare parts.

ECR

KU recovers the costs of complying with the Federal Clean Air Act pursuant to Kentucky Revised Statute 278-183 as amended and those federal, state or local environmental requirements which apply to coal combustion wastes and by-products from facilities utilized for production of energy from coal, through the ECR mechanism. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

The Kentucky Commission requires reviews of the past operations of the environmental surcharge for six-month and two-year billing periods to evaluate the related charges, credits and rates of return, as well as to provide for the roll-in of ECR amounts to base rates each two-year period. In December 2010, the Kentucky Commission initiated a six-month review of the Utilities' environmental surcharge for the billing period ending October 2010. An order is expected in the second quarter of 2011. Also, in December 2010, an Order was issued approving the charges and credits billed through the ECR during the six-month period ending April 2010, as well as approving billing adjustments for under-recovered costs and the rate of return on capital. In May 2010, an Order was issued approving the amounts billed through the ECR during the six-month period ending October 2009, and the rate of return on capital and allowing recovery of the under-recovery position in subsequent monthly filings. In December 2009, an Order was issued approving the charges and credits billed through the ECR during the two-year period ending April 2009, an increase in the jurisdictional revenue requirement, a base rate roll-in and a revised rate of return on capital. In July 2009, an Order was issued approving the charges and credits billed through the ECR during the six-month period ending October 2008, as well as approving billing adjustments for under-recovered costs and the rate of return on capital. In August 2008, an Order was issued approving the charges and credits billed through the ECR during the six-month periods ending April

2008 and October 2007, and the rate of return on capital. In March 2008, an Order was issued approving the charges and credits billed through the ECR during the six-month and two-year periods ending October 2006 and April 2007, respectively, as well as approving billing adjustments, roll-in adjustments to base rates, revisions to the monthly surcharge filing and the rates of return on capital.

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. During 2009, KU reached a unanimous settlement with all parties to the case and the Kentucky Commission issued an Order approving KU's application. Recovery on customer bills through the monthly ECR surcharge for these projects began with the February 2010 billing cycle. At December 31, 2009, the Company had a regulatory asset of $28 million, which changed to a regulatory liability in the first quarter of 2010, as a result of these roll-in adjustments to base rates. At December 31, 2010, the regulatory liability balance was $12 million.

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%. The 10.63% return on equity for the ECR mechanism was affirmed in the 2010 rate case.

FAC

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

The Kentucky Commission requires public hearings at six-month intervals to examine past fuel adjustments and at two-year intervals to review past operations of the fuel clause and transfer of the then current fuel adjustment charge or credit to the base charges. In December 2010, May 2010, November 2009, January 2009, June 2008 and January 2008, the Kentucky Commission issued Orders approving the charges and credits billed through the FAC for the six-month periods ending April 2010, August 2009, April 2009, April 2008, October 2007 and April 2007, respectively. In January 2009 the Kentucky Commission initiated routine examinations of the FAC for the two-year periods 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 periods.

KU also employs an FAC mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The Virginia levelized fuel factor allows fuel recovery based on projected fuel costs for the coming year plus an adjustment for any over- or under-recovery of fuel expenses from the prior year. At December 31, 2010 and 2009, KU had a regulatory asset of $5 million and less than $1 million, respectively.

In February 2010, KU filed an application with the Virginia Commission seeking approval of a decrease in its fuel cost factor beginning with service rendered in April 2010. An Order was issued in April 2010, resulting in an agreed upon decrease of 23% from the fuel factor in effect for April 2009 through March 2010.

In February 2009, KU filed an application with the Virginia Commission seeking approval of a 29% increase in its fuel cost factor beginning with service rendered in April 2009. In February 2009, the Virginia Commission issued an Order allowing the requested change to become effective on an interim basis. The Virginia Staff testimony filed in April 2009 recommended a slight decrease in the factor filed by KU. The Company indicated the Virginia Staff proposal was acceptable. A hearing was held in May 2009, with general resolution of remaining issues. In May 2009, the Virginia Commission issued an Order approving the revised fuel factor, representing an increase of 24%, effective May 2009.

In February 2008, KU filed an application with the Virginia Commission seeking approval of a decrease in its fuel cost factor applicable during the billing period, April 2008 through March 2009. The Virginia Commission allowed the new rates to be in effect for the April 2008 customer billings. In April 2008, the Virginia Commission Staff recommended a change to the fuel factor KU filed in its application, to which KU agreed. Following a public hearing and an Order in May 2008, the recommended change became effective in June 2008, resulting in a decrease of 0.482 cents/kWh from the factor in effect for the April 2007 through March 2008 period.

Coal Contracts

In November 2010, purchase accounting adjustments were recorded for the fair value of KU’s coal contracts. Offsetting regulatory asset or liability for fair value purchase accounting adjustments eliminate any ratemaking impact of the fair value adjustments.

MISO

Following receipt of applicable FERC, Kentucky Commission and other regulatory Orders, related to proceedings that had been underway since July 2003, KU withdrew from the MISO effective September 1, 2006. Since the exit from the MISO, KU has been operating under a FERC approved OATT. KU now contracts with the TVA to act as its transmission reliability coordinator and SPP to function as its independent transmission operator, pursuant to FERC requirements. The contractual obligations with the TVA extend through August 2011 and with SPP through August 2012.

KU and the MISO agreed upon overall calculation methods for the contractual exit fee to be paid by the Company following its withdrawal. In October 2006, the Company paid $20 million to the MISO and made related FERC compliance filings. The Company’s payment of this exit fee was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. KU and the MISO resolved their dispute regarding the calculation of the exit fee and, in November 2007, filed an application with the FERC for approval of a recalculation agreement. In March 2008, the FERC approved the parties’ recalculation of the exit fee and the approved agreement providing KU with recovery of $4 million, of which $1 million was immediately recovered in 2008, with the remainder to be recovered over the seven years from 2008 through 2014 for credits realized from other payments the MISO will receive, plus interest.

In accordance with Kentucky Commission Orders approving the MISO exit, KU 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. This regulatory liability balance as of October 31, 2009, was included in the base rate case application filed on January 29, 2010. MISO exit fee credit amounts subsequent to October 31, 2009, will continue to accumulate as a regulatory liability until they 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 less than $1 million relating to potential RSG resettlement costs for the period ended December 31, 2008. However, in May 2009, after a portion of the resettlement payments had been made, 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 less than $1 million. The MISO began refunding the amounts to the Company in June 2009 with full repayment 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 based on the prior Order. 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 $1 million of expense, substantially all of which was paid by September 2009.

In August 2009, the FERC determined that the MISO had failed to demonstrate that its proposed exemptions to real-time RSG charges were just and reasonable. In November 2009, the MISO made a compliance filing incorporating the rulings of the FERC Orders and a related task force, with a primary open issue being whether certain of the tariff changes are applied prospectively only or retroactively to approximately January 6, 2009.

In November 2009, the Utilities filed an application with the FERC to approve certain independent transmission operator arrangements to be effective upon the expiration of their current contract with SPP in September 2010. The application sought authority for KU and LG&E to function after such date as the administrators of their own OATT for most purposes. However, due to the lack of FERC approval for such an approach and the approaching expiration of the SPP contract, the Utilities determined the approach was no longer reasonably achievable without unacceptable delay and uncertainty. In July 2010, the Utilities entered into a new agreement with SPP to provide independent transmission operator services for a specified, limited time and removed its application for authority of administering its own OATT. The TVA, which currently acts as reliability coordinator, has also been retained under the existing service contract. The new agreement extends TVA services to August 2011 with no alterations or changes to the party's duties or responsibilities.

In August 2010, the FERC issued three Orders accepting most facets of several MISO RSG compliance filings. The FERC ordered the MISO to issue refunds for RSG charges that were imposed by the MISO on the assumption that there were rate mismatches for the period beginning November 5, 2007 through the present. There is no financial statement impact to the Company from this Order, as the MISO had anticipated that the FERC would require these refunds and had preemptively included them in the resettlements paid in 2009. The FERC denied the MISO's proposal to exempt certain resources from RSG charges, effective prospectively. The FERC accepted portions and rejected portions of the MISO's proposed RSG rate Redesign Proposal, which will be effective when the software is ready for implementation subject to further compliance filings. The impact of the Redesign Proposal on the Company cannot be estimated at this time.

Pension and Postretirement Benefits

KU accounts for pension and postretirement benefits in accordance with the compensation – retirement benefits guidance of the FASB ASC. This guidance requires employers to recognize the over-funded or under-funded status of a defined benefit pension and postretirement plan as an asset or liability on the Balance Sheets and to recognize through other comprehensive income the changes in the funded status in the year in which the changes occur. Under the regulated operations guidance of the FASB ASC, KU can defer recoverable costs that would otherwise be charged to expense or equity by non-regulated entities. Current rate recovery in Kentucky and Virginia is based on the compensation – retirement benefits guidance of the FASB ASC. Regulators have been clear and consistent with their historical treatment of such rate recovery; therefore, the Company has recorded a regulatory asset representing the change in funded status of its pension plan that is expected to be recovered and a regulatory liability representing the change in funded status of its postretirement benefit plan. The regulatory asset and liability will be adjusted annually as prior service cost and actuarial gains and losses are recognized in net periodic benefit cost.

Storm Restoration

In January 2009, a significant ice storm passed through KU's service area causing approximately 199,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 44,000 customer outages. An application was filed with the Kentucky Commission in April 2009, requesting approval to establish a regulatory asset and defer for future recovery approximately $62 million in incremental operation and maintenance expenses related to the storm restoration. In September 2009, the Kentucky Commission issued an Order allowing the establishment of a regulatory asset of up to $62 million based on actual costs for storm damages and service restoration due to the January and February 2009 storms. In September 2009, a regulatory asset of $57 million was established for actual costs incurred and approval was received in KU's 2010 base rate case to recover this asset over a ten year period beginning August 1, 2010.

In September 2008, high winds from the remnants of Hurricane Ike passed through the service area causing significant outages and system damage. In October 2008, an application was filed with the

Kentucky Commission requesting approval to establish regulatory assets and defer for future recovery approximately $3 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the establishment a regulatory asset of up to $3 million based on actual costs for storm damages and service restoration due to Hurricane Ike. In December 2008, a regulatory asset of $2 million was established for actual costs incurred and KU received approval in its 2010 base rate case to recover this asset over a ten year period, beginning August 1, 2010.

Unamortized Loss on Bonds

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

CMRG and KCCS Contributions

In July 2008, KU and LG&E, 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. KU and LG&E jointly agreed to provide $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. KU received approval from the Kentucky Commission in the Company's 2010 Kentucky base rate case to recover these regulatory assets over the requested period beginning August 1, 2010.

Rate Case Expenses

KU 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.

KU incurred $2 million in expenses related to the development and support of the 2010 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 August 2010.

FERC Jurisdictional Pension Costs

Other regulatory assets include pension costs of $5 million incurred by the Company and allocated to its FERC jurisdictional ratepayers. The Company will seek recovery of this asset in the next FERC rate proceeding.

Deferred Storm Costs

Based on an Order from the Kentucky Commission in June 2004, KU reclassified from maintenance expense to a regulatory asset $4 million related to costs not reimbursed from the 2003 ice storm. These costs were amortized through June 2009. KU earned a return of these amortized costs, which were included in jurisdictional operating expenses.

DSM

DSM consists of energy efficiency programs which are intended to reduce peak demand and delay the investment in additional power plant construction, provide customers with tools and information to become better managers of their energy usage and prepare for potential future legislation governing energy efficiency. KU's rates contain a DSM provision which includes a rate mechanism that provides for concurrent recovery of DSM costs and provides an incentive for implementing DSM programs. The provision allows KU to recover revenues from lost sales associated with the DSM programs based on program plan engineering estimates and post-implementation evaluations.

In July 2007, KU and LG&E filed an application with the Kentucky Commission requesting an order approving enhanced versions of the existing DSM programs along with the addition of several new cost effective programs. The total annual budget for these programs is approximately $26 million. In March 2008, the Kentucky Commission issued an Order approving the application, with minor modifications. KU and LG&E filed revised tariffs in April 2008, under authority of this Order, which were effective in May 2008.

Emission Allowances

In November 2010, purchase accounting adjustments were recorded for the fair market value of KU's SO_2, NOx ozone season and NOx annual emission allowances. Offsetting regulatory assets or liabilities for fair value purchase accounting adjustments eliminate any ratemaking impact of the fair value adjustments. KU is granted SO_2 emission allowances through 2040 and NOx ozone season and NOx annual emission allowances through 2011.

Accumulated Cost of Removal of Utility Plant

As of December 31, 2010 and 2009, KU segregated the cost of removal, previously embedded in accumulated depreciation, of $348 million and $335 million, respectively, in accordance with FERC Order No. 631. For reporting purposes on the Balance Sheets, KU presented this cost of removal as a "Regulatory liability" pursuant to the regulated operations guidance of the FASB ASC.

OVEC Power Purchase Contract

In November 2010, purchase accounting adjustments were recorded for the fair value of the power purchase agreement between KU and OVEC. Offsetting regulatory liability for fair value purchase accounting adjustment eliminate any ratemaking impact of the fair value adjustments.

Deferred Income Taxes – Net

These regulatory liabilities represent the future revenue impact from the reversal of deferred income taxes required for unamortized investment tax credits, the allowance for funds used during construction and deferred taxes provided at rates in excess of currently enacted rates.

Other Regulatory Matters

Kentucky Commission Report on Storms

In November 2009, the Kentucky Commission issued a report following review and analysis of the effects and utility response to the September 2008 wind storm and the January 2009 ice storm and possible utility industry preventative measures relating thereto. The report suggested a number of proposed or recommended preventative or responsive measures, including consideration of selective hardening of facilities, altered vegetation management programs, enhanced customer outage communications and similar measures. In March 2010, the Utilities filed a joint response reporting on their actions with respect to such recommendations. The response indicated implementation or completion of substantially all of the recommendations, including, among other matters, on-going reviews of system hardening and vegetation management procedures, certain test or pilot programs in such areas and fielding of enhanced operational and customer outage-related systems.

Wind Power Agreements

In August 2009, KU and LG&E filed a notice of intent with the Kentucky Commission indicating their intent to file an application for approval of wind power purchase contracts and cost recovery mechanisms. The contracts were executed in August 2009 and were contingent upon KU and LG&E receiving acceptable regulatory approvals. Pursuant to the proposed 20-year contracts, KU and LG&E would jointly purchase respective assigned portions of the output of two Illinois wind farms totaling an aggregate 109.5 Mw. In September 2009, the Utilities filed an application and supporting testimony with the Kentucky Commission. In October 2009, the Kentucky Commission issued an Order denying the Utilities' request to establish a surcharge for recovery of the costs of purchasing wind power. The Kentucky Commission stated that such recovery constitutes a general rate adjustment and is subject to the regulations of a base rate case. The Kentucky Commission Order provided for the request for approval of the wind power agreements to proceed independently from the request to recover the costs thereof via surcharges. In November 2009, KU and LG&E filed for rehearing of the Kentucky Commission's Order and requested that the matters of approval of the contract and recovery of the costs thereof remain the subject of the same proceeding. During December 2009, the Kentucky Commission issued data requests on this matter. In March 2010, the Utilities delivered notices of termination under provisions of the wind power contracts. The Utilities also filed a motion with the Kentucky Commission noting the termination of the contracts and seeking withdrawal of their application in the related regulatory proceeding. In April 2010, the Kentucky Commission issued an Order allowing the Utilities to withdraw their pending application.

Trimble County Asset Purchase and Depreciation

In July 2009, the Utilities notified the Kentucky Commission of the proposed sale from the Utilities of certain ownership interests in certain existing Trimble County generating station assets which were anticipated to provide joint or common use in support of the jointly-owned TC2 generating unit under construction at the station. The undivided ownership interests sold provide KU an ownership interest in these common assets proportional to its interest in TC2 and the assets' role in supporting both TC1 and TC2. In December 2009, the Utilities completed the sale transaction at a price of $48 million, representing the current net book value of the assets multiplied by the proportional interest being sold.

In August 2009, the Utilities jointly filed an application with the Kentucky Commission to approve new depreciation rates for applicable jointly-owned TC2-related generating, pollution control and other plant equipment and assets. During December 2009, the Kentucky Commission extended the data discovery process through January 2010 and authorized the Utilities on an interim basis to begin using the depreciation rates for TC2 as proposed in the application. In March 2010, the Kentucky Commission issued a final Order approving the use of the proposed depreciation rates on a permanent basis.

TC2 CCN Application and Transmission Matters

An application for a CCN for construction of TC2 was approved by the Kentucky Commission in November 2005. CCNs for two transmission lines associated with TC2 were issued by the Kentucky Commission in September 2005 and May 2006. All regulatory approvals and rights of way for one transmission line have been obtained.

KU's and LG&E's CCN for a transmission line associated with the TC2 construction has been challenged by certain property owners in Hardin County, Kentucky. Certain proceedings relating to CCN challenging and federal historic preservation permit requirements have concluded with outcomes in the Utilities' favor.

Completion of the transmission lines are also subject to standard construction permit, environmental authorization and real property or easement acquisition procedures. Certain Hardin County landowners have raised challenges to the transmission line in some of these forums as well.

With respect to the remaining on-going dispute, KU obtained various successful rulings during 2008 at the Hardin County Circuit Court confirming its condemnation rights. In August 2008, several landowners appealed such rulings to the Kentucky Court of Appeals and received a temporary stay preventing KU from accessing their properties. In May 2010, the Kentucky Court of Appeals issued an Order affirming the Hardin Circuit Court's finding that KU had the right to condemn easements on the properties. In May 2010, the landowners filed a petition for reconsideration with the Court of Appeals. In July 2010, the Court of Appeals denied that petition. In August, 2010, the landowners filed for discretionary review of that denial by the Kentucky Supreme Court.

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, KU and LG&E entered into settlements with certain Meade County landowners and obtained dismissals of prior litigation they brought challenging the same transmission line.

As a result of the aforementioned unresolved litigation delays encountered in obtaining access to certain properties in Hardin County, KU obtained easements to allow construction of temporary transmission facilities, bypassing those properties while the litigated issues are resolved. In September 2009, the Kentucky Commission issued an Order stating that a CCN was necessary for two segments of the proposed temporary facilities. In December 2009, the Kentucky Commission granted the CCNs for the relevant segments and the property owners have filed various motions to intervene, stay and appeal certain elements of the Kentucky Commission's recent orders. In January 2010, in respect of two of such proceedings, the Franklin County circuit court issued Orders denying the property owners' request for a stay of construction and upholding the prior Kentucky Commission denial of their intervenor status.

Consistent with the regulatory authorizations and the favorable outcome of the legal proceedings, the Utilities completed construction activities on the permanent transmission line easements. During 2010, the Utilities placed the transmission line into operation. While the Utilities are not currently able to predict the ultimate outcome and possible financial effects of the remaining legal proceedings, the Utilities do not believe the matter involves relevant or continuing risks to operations.

Utility Competition in Virginia

The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave customers the ability to choose their electric supplier and capped electric rates through December 2010. KU subsequently received a legislative exemption from the customer choice requirements of this law. In April 2007, however, the Virginia General Assembly amended the Virginia Electric Utility Restructuring Act, thereby terminating this competitive market and commencing re-regulation of utility rates. The new act ended the cap on rates at the end of 2008. Pursuant to this legislation, the Virginia Commission adopted regulations revising the rules governing utility rate increase applications. As of January 2009, a hybrid model of regulation is being applied in Virginia. Under this model, utility rates are reviewed every two years. KU's exemption from the requirements of the Virginia Electric Utility Restructuring Act in 1999, however, discharges the Company from the requirements of the new hybrid model of regulation. In lieu of submitting an annual information filing, the Company has the option of requesting a change in base rates to recover prudently incurred costs by filing a traditional base rate case. KU is also subject to other utility regulations in Virginia, including, but not limited to, the recovery of prudently incurred fuel costs through an annual fuel factor charge and the submission of integrated resource plans.

Market-Based Rate Authority

In July 2006, the FERC issued an Order in KU's market-based rate proceeding accepting the Company's further proposal to address certain market power issues the FERC 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 balancing areas in which it may be deemed to have market power, subject to a restriction that such power will not be collusively re-sold back into such balancing areas. However, restrictions exist on sales by KU of power at market-based rates in the KU and LG&E and Big Rivers Electric Company balancing 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 balancing 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, KU must comply with applicable affiliate restrictions set forth in the FERC regulation. During September 2008, the Company submitted a regular triennial 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 balancing area interfaces or into balancing 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 KU completed a transaction terminating certain prior generation and power marketing activities in the Big Rivers Electric Company balancing 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 balancing area.

KU 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 less than $1 million for the year ended December 31, 2010.

Mandatory Reliability Standards

As a result of the EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007 and authority was delegated to various Regional Reliability Organizations ("RROs") by the NERC, which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day, as well as non-monetary penalties, depending upon the circumstances of the violation. The Utilities are members of the SERC, which acts as KU's and LG&E's RRO. During December 2009 and April, July and August 2010, the Utilities submitted ten self-reports relating to various standards, which self-reports remain in the early stages of RRO review, and therefore, the Utilities are unable to estimate the outcome of these matters. Mandatory reliability standard settlements commonly also include non-penalty elements, including compliance steps and mitigation plans. Settlements with SERC proceed to NERC and FERC review before becoming final. While the Utilities believe they are in compliance with the mandatory reliability standards, events of potential non-compliance may be identified from time-to-time. The Utilities cannot predict such potential violations or the outcome of self-reports described above.

Integrated Resource Planning

Integrated resource planning ("IRP") regulations in Kentucky require major utilities to make triennial IRP filings with the Kentucky Commission. In April 2008, KU and LG&E filed their 2008 joint IRP with the Kentucky Commission. The IRP provides historical and projected demand, resource and financial data and other operating performance and system information. The Kentucky Commission issued a staff report and Order closing this proceeding in December 2009. Pursuant to the Virginia Commission's December 2008 Order, KU filed its IRP in July 2009. The filing consisted of the 2008 Joint IRP filed by KU and LG&E with the Kentucky Commission along with additional data. The Virginia Commission has not established a procedural schedule for this proceeding. KU expects to file their next IRP in April 2011.

PUHCA 2005

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

EPAct 2005

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

In February 2006, the Kentucky Commission initiated an administrative proceeding to consider the requirements of the EPAct 2005, Subtitle E Section 1252, Smart Metering, which concerns time-based metering and demand response, and Section 1254, Interconnections. EPAct 2005 requires each state regulatory authority to conduct a formal investigation and issue a decision on whether or not it is appropriate to implement certain Section 1252 standards within eighteen months after the enactment of EPAct 2005 and to commence consideration of Section 1254 standards within one year after the enactment of EPAct 2005. Following a public hearing with all Kentucky jurisdictional electric utilities, in December 2006, the Kentucky Commission issued an Order in this proceeding indicating that the EPAct 2005 Section 1252 and Section 1254 standards should not be adopted. However, all five Kentucky Commission jurisdictional utilities were required to file real-time pricing pilot programs for their large commercial and industrial customers. KU developed a real-time pricing pilot program for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by KU for implementation within approximately eight months. The tariff was filed in October 2008, with an effective date of December 1, 2008. KU files annual reports on the program within 90 days of each plan year end for the three-year pilot period.

Green Energy Riders

In February 2007, KU and LG&E filed a Joint Application and Testimony for Proposed Green Energy Riders. In May 2007, a Kentucky Commission Order was issued authorizing KU to establish Small and Large Green Energy Riders, allowing customers to contribute funds to be used for the purchase of renewable energy credits. During November 2009, KU and LG&E filed an application to both continue and modify the existing Green Energy Programs. In February 2010, the Kentucky Commission approved the Utilities’ application, as filed.

Home Energy Assistance Program

In July 2007, KU filed an application with the Kentucky Commission for the establishment of a Home Energy Assistance program. During September 2007, the Kentucky Commission approved the five-year program as filed, effective in October 2007. The programs were scheduled to terminate in September 2012 and is funded through a $0.10 per month meter charge. Effective February 6, 2009, as a result of the settlement agreement in the 2008 base rate case, the program is funded through a $0.15 per month meter charge. As a condition in the settlement in the change of control proceeding before the Kentucky Commission in the PPL acquisition, the program was extended to September 2015.

Collection Cycle Revision

As part of its base rate case filed on July 29, 2008, LG&E proposed to change the due date for customer bill payments from 15 days to 10 days to align its collection cycle with KU. In addition, in its rate case filed on July 29, 2008, KU proposed to include a late payment charge if payment is not received within 15 days from the bill issuance date to align with LG&E. The settlement agreements approved in the rate cases in February 2009 changed the due date for customer bill payments to 12 days after bill issuance for both KU and LG&E and permitted KU's implementation of a late payment charge if payment is not received within 15 days from the bill issuance date.

Depreciation Study

In December 2007, KU 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 agreements in the rate cases established new depreciation rates effective February 2009. KU also filed the depreciation study with the Virginia Commission which approved the implementation of the new depreciation rates effective February 2009. Approval by the Virginia Commission does not preclude the rates from being raised as an issue by any party in KU's future base rate cases in Virginia.

Brownfield Development Rider Tariff

In March 2008, KU received Kentucky Commission approval for a Brownfield Development Rider, which offers a discounted rate to electric customers who meet certain usage and location requirements, including taking new service at a Brownfield site, as certified by the appropriate Kentucky state agency. The rider permits special contracts with such customers which provide for a series of declining partial rate discounts over an initial five-year period of a longer service arrangement. The tariff is intended to promote local economic redevelopment and efficient usage of utility resources by aiding potential reuse of vacant Brownfield sites.

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. KU does not expect any financial or other impact as a result of this Order. In April 2009, KU filed revised net metering tariffs and application forms pursuant to the Kentucky Commission's Order. The Kentucky Commission issued an Order in April 2009, which suspended for five months all net metering tariffs filed by the jurisdictional electric utilities. This suspension was 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 an informal conference with the parties to discuss issues related to the net metering tariffs filed by KU. Following this conference, the intervenors and KU resolved all issues and KU filed revised net metering tariffs with the Kentucky Commission. In August 2009, the Kentucky Commission issued an Order approving the revised tariffs.

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 non-regulated 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 established a procedural schedule that allowed for data discovery and testimony through July 2009. 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. A public hearing has not been scheduled in this matter.

Note 4 - Asset Retirement Obligations

A summary of KU's net ARO assets, ARO liabilities and regulatory assets established under the asset retirement and environmental obligations guidance of the FASB ASC follows:

	ARO Net Assets	ARO Liabilities	Regulatory Assets
As of December 31, 2008, Predecessor	$ 5	$ (32)	$ 28
ARO accretion and depreciation	(1)	(2)	2
As of December 31, 2009, Predecessor	4	(34)	30
ARO accretion and depreciation	-	(2)	2
Reclassification for retired assets	(1)	-	1
ARO revaluation - change in estimates	22	(24)	2
As of October 31, 2010, Predecessor	25	(60)	35
ARO accretion and depreciation	(1)	-	1
Purchase accounting - fair value adjustment	28	6	(34)
As of December 31, 2010, Successor	$ 52	$ (54)	$ 2

In September 2010, the Company performed a revaluation of its AROs as a result of recently proposed environmental legislation and improved ability to forecast asset retirement costs due to recent construction and retirement activity.

In November 2010, the Company recorded a purchase accounting adjustment to fair value AROs due to the PPL acquisition.

Pursuant to regulatory treatment prescribed under the regulated operations guidance of the FASB ASC, an offsetting regulatory credit was recorded in "Depreciation and amortization" in the Statements of Income for the Successor of $1 million in 2010 and $2 million for the Predecessor for the ARO accretion and depreciation expense. The offsetting regulatory credit recorded was $2 million in 2009 and 2008 for the ARO accretion and depreciation expense. The ARO liabilities are offset by cash settlements that have not yet been applied. Therefore, ARO net assets, ARO liabilities and regulatory assets balances do not net to zero due to the cash settlements.

KU's AROs are primarily related to the final retirement of assets associated with generating units. KU transmission and distribution lines largely operate under perpetual property easement agreements which do not generally require restoration upon removal of the property. Therefore, under the asset retirement and environmental obligations guidance of the FASB ASC, no material asset retirement obligations are recorded for transmission and distribution assets.

Note 5 – Derivative Financial Instruments

KU is subject to interest rate and commodity price risk related to on-going business operations. 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. Although the Company's policies allow for the use of interest rate swaps, as of December 31, 2010 and 2009, KU had no interest rate swaps outstanding. At December 31, 2010, KU's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was less than $1 million.

The Company does not net collateral against derivative instruments.

Energy Trading and Risk Management Activities

KU conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to manage price risk and are accounted for as non-hedging derivatives on a mark-to-market basis in accordance with the derivatives and hedging guidance 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 data 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. 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 2010 or 2009. Changes in market pricing, interest rate and volatility assumptions were made during both years.

KU's financial assets and liabilities as of December 31, 2010 and December 31, 2009, arising from energy trading and risk management contracts not designated as hedging instruments accounted for at fair value total less than $1 million and are recorded in prepayments and other current assets and other current liabilities, respectively.

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, KU seeks to enter into netting agreements or require cash deposits, letters of credit and parental company guarantees as security from counterparties. The Company uses ratings of 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, KU 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 December 31, 2010, 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 KU's own creditworthiness (for net liabilities) and its counterparty's creditworthiness (for net assets). The Company applies historical default rates within varying credit ratings over time provided by S&P or Moody's. At December 31, 2010 and December 31, 2009, counterparty credit reserves related to energy trading and risk management contracts were less than $1 million.

The net volume of electricity based financial derivatives outstanding at December 31, 2010 and December 31, 2009, was 129,199 Mwh and 315,600 Mwh, respectively. Cash collateral related to the energy trading and risk management contracts was less than $1 million at December 31, 2010 and December 31, 2009. Cash collateral related to the energy trading and risk management contracts is recorded in "Prepayments and other current assets" on the Balance Sheets.

KU manages the price risk of its estimated future excess economic generation capacity using market-traded forward contracts. Hedge accounting treatment has not been elected for these transactions; therefore, realized and unrealized gains and losses are included in the Statements of Income.

The following table presents the effect of market-traded forward contract derivatives not designated as hedging instruments on income:

		Successor	Predecessor		
		November 1, 2010	January 1, 2010	Year Ended	
Loss Recognized		through	through	December 31,	
in Income	Location	December 31, 2010	October 31, 2010	2009	2008
Unrealized gain (loss)	Electric revenues	$ -	$ -	$ (1)	$ 1

Net realized gains and losses were zero for the period ended December 31, 2010 and less than $1 million for the periods ended October 31, 2010, December 31, 2009 and December 31, 2008.

Credit Risk Related Contingent Features

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

Additionally, certain of KU's derivative contracts contain credit contingent provisions that require KU to provide "adequate assurance" of performance if the other party has reasonable grounds for insecurity regarding KU's performance of its obligation under the contract. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. A demand for additional assurance would typically involve negotiations among the parties.

To determine net liability positions, KU uses the fair value of each agreement. At December 31, 2010, there were no energy trading and risk management derivative contracts with credit risk related contingent features that are in a liability position and collateral of less than $1 million was posted in the normal course of business. At December 31, 2010, a downgrade of the Company's credit rating below investment grade would have no effect on the energy trading and risk management derivative contracts or collateral required.

Note 6 - Fair Value Measurements

KU adopted the fair value guidance in the FASB ASC in two phases. Effective January 1, 2008, the Company adopted it for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis, and effective January 1, 2009, the Company adopted it for all non-financial instruments accounted for at fair value on a non-recurring basis. The FASB ASC guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, the FASB ASC guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value.

The carrying values and estimated fair values of KU's non-trading financial instruments follow:

	Successor		Predecessor	
	December 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term bonds	$ 1,841	$ 1,728	$ 351	$ 351
Long-term debt to affiliated company	-	-	1,331	1,401

The long-term fixed rate pollution control bond valuations reflect prices quoted by investment banks, which are active in the market for these instruments. First mortgage bond valuations reflect prices quoted from a third party service. The fair value of the long-term debt due to affiliated company is determined using an internal valuation model that discounts the future cash flows of each loan at current market rates as determined based on quotes from investment banks that are actively involved in capital markets for utilities and factor in KU's credit ratings and default risk. The fair values of cash and cash equivalents, accounts receivable, cash surrender value of key man life insurance, accounts payable and notes payable are substantially the same as their carrying values.

KU 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 guidance of the FASB ASC, as discussed in Note 1, Summary of Significant Accounting Policies.

The Company classifies its derivative cash collateral balances within level 1 based on the funds being held in a demand deposit account. The Company classifies its derivative energy trading and risk management contracts within level 2 because it values them using prices actively quoted for proposed or executed transactions, quoted by brokers or observable inputs other than quoted prices.

KU's financial assets and liabilities as of December 31, 2010 and 2009, arising from energy trading and risk management contracts accounted for at fair value on a recurring basis total less than $1 million. Cash collateral related to the energy trading and risk management contracts was less than $1 million at December 31, 2010 and December 31, 2009 each year.

There were no level 3 measurements for the periods ending December 31, 2010 and December 31, 2009.

Note 7 - Goodwill and Intangible Assets

In connection with PPL's acquisition of LKE, KU recorded goodwill on November 1, 2010. In addition, as of November 1, 2010, certain intangible assets were adjusted to their fair value and new intangible assets were recorded. See Note 2, Acquisition by PPL, for further information.

Goodwill

The Company performs its required annual goodwill impairment test in the fourth quarter. Impairment tests are performed between the annual tests when the Company determines that a triggering event has occurred that would, more likely than not, reduce the fair value of a reporting unit below its carrying value. The goodwill impairment test is comprised of a two-step process. In step 1, the Company identifies a potential impairment by comparing the estimated fair value of the regulated utilities (the goodwill reporting unit) to their carrying value, including goodwill, on the measurement date. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. If the fair value is less than the carrying value, then step 2 is performed to measure the amount of impairment loss, if any. The step 2 calculation compares the implied fair value of the goodwill to the carrying value of the goodwill. The implied fair value of goodwill is equal to the excess of the Company estimated fair value over the fair values of its identified assets and liabilities. If the carrying value of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to that excess (but not in excess of the carrying value).

In connection with PPL's acquisition of LKE on November 1, 2010, goodwill of $607 million was recorded on November 1, 2010. The allocation of the goodwill to KU was based on the net asset value of the Company. The goodwill represents value paid for the rate regulated business located in a defined service area with a constructive regulatory environment, which provides for future investment, earnings and cash flow growth, as well as the talented and experienced workforce. KU's franchise values are being attributed to the going concern value of the business and thus were recorded as goodwill rather than a separately identifiable intangible asset. None of the goodwill recognized is expected to be deductible for income tax purposes or included in customer rates. See Note 2, Acquisition by PPL, for further information.

For the 2010 annual impairment test, the primary valuation technique used was an income methodology based on management's estimates of forecasted cash flows for the Company, with those cash flows discounted to present value using rates commensurate with the risks of those cash flows. Management also took into consideration the acquisition price paid by PPL. The discounted cash flows for the Company was based on discrete financial forecasts developed by management for planning purposes and consistent with those given to PPL. Cash flows beyond the discrete forecasts were estimated using a terminal-value calculation, which incorporated historical and forecasted financial trends for the Company. No impairment resulted from the fourth quarter test, as the determined fair value of the Company was greater than its carrying value.

Other Intangible Assets

The gross carrying amount and the accumulated amortization of other intangible assets were as follows:

	Successor	
	December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:		
Coal contracts (a)	$ 145	$ 3
Land rights (b)	8	-
Emission allowances (c)	9	-
OVEC power purchase agreement (d)	39	1
Total other intangible assets	$ 201	$ 4

(a) The gross carrying amount represents the fair value of coal contracts recognized as a result of the 2010 acquisition by PPL. The weighted average amortization period of these contracts is 3 years. See Note 2, Acquisition by PPL, for further information.

(b) The gross carrying amount represents the fair value of land rights recognized as a result of adopting PPL's accounting policies in the Successor period. The weighted average amortization period of these rights is 17 years. See Note 1, Summary of Significant Accounting Policies, for further information.
(c) The gross carrying amount represents the fair value of emission allowances recognized as a result of the 2010 acquisition by PPL, as well as the reclassification of amounts from inventory to intangible assets as a result of adopting PPL's accounting policies in the Successor period. The weighted average amortization period of these emission allowances is 3 years. See Note 2, Acquisition by PPL, for further information.
(d) The gross carrying amount represents the fair value of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. The weighted average amortization period of the power purchase agreement is 8 years. See Note 2, Acquisition by PPL, for further information.

Current intangible assets and long-term intangible assets are included in "Other intangible assets" in their respective areas on the Balance Sheets in 2010. Intangible assets resulting from purchase accounting adjustments are not recoverable in rates.

Amortization expense, excluding consumption of emission allowances, was $4 million for the Successor in 2010. The estimated aggregate amortization expense for each of the next five years is as follows:

	Estimated Expense in Period Ended				
	2011	2012	2013	2014	2015
Aggregate amortization expense	$ 43	$ 25	$ 27	$ 24	$ 26

Note 8 - Concentrations of Credit and Other Risk

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

All of KU's customer receivables arise from deliveries of electricity. During 2010, the Company's ten largest customers accounted for less than 19% of volumes.

Effective August 4, 2009, KU and its employees represented by the IBEW Local 2100 entered into a three-year collective bargaining agreement. The agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. KU and its employees represented by the USWA Local 9447-01 entered into a three-year collective bargaining agreement in August 2008. This agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. The employees represented by these two bargaining units comprise approximately 15% of the Company's workforce at December 31, 2010.

Note 9 - Pension and Other Postretirement Benefit Plans

KU employees benefit from both funded and unfunded retirement benefit plans. Its defined benefit pension plan covers employees hired by December 31, 2005. Employees hired after this date participate in the Retirement Income Account ("RIA"), a defined contribution plan. The postretirement plan includes health care benefits that are contributory, with participants' contributions adjusted annually. The Company uses December 31 as the measurement date for its plans.

Obligations and Funded Status

The following tables provide a reconciliation of the changes in the defined benefit plans' obligations, the fair value of assets and the funded status of the plans for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor:

	Pension Benefits			Other Postretirement Benefits		
	Successor	Predecessor		Successor	Predecessor	
	2010	2010	2009	2010	2010	2009
Change in benefit obligation:						
Benefit obligation at beginning of period	$ 355	$ 316	$ 306	$ 84	$ 80	$ 75
Service cost	1	5	6	-	1	2
Interest cost	3	16	18	1	4	4
Benefits paid, net of retiree contributions	(3)	(14)	(18)	(1)	(4)	(5)
Actuarial (gain) loss and other	(2)	32	4	(1)	3	4
Benefit obligation at end of period	$ 354	$ 355	$ 316	$ 83	$ 84	$ 80

	Pension Benefits			Other Postretirement Benefits		
	Successor	Predecessor		Successor	Predecessor	
	2010	2010	2009	2010	2010	2009
Change in plan assets:						
Fair value of plan assets at beginning of period	$ 237	$ 219	$ 183	$ 20	$ 17	$ 12
Actual return on plan assets	7	20	41	-	1	3
Employer contributions	-	13	13	2	6	7
Benefits paid, net of retiree contributions	(3)	(14)	(18)	(1)	(4)	(5)
Administrative expenses and other	-	(1)	-	-	-	-
Fair value of plan assets at end of period	$ 241	$ 237	$ 219	$ 21	$ 20	$ 17
Funded status at end of period	$ (113)	$ (118)	$ (97)	$ (62)	$ (64)	$ (63)

Amounts Recognized in the Balance Sheets

The following tables provide the amounts recognized in the Balance Sheets and information for plans with benefit obligations in excess of plan assets plans for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor:

	Pension Benefits			Other Postretirement Benefits		
	Successor	Predecessor		Successor	Predecessor	
	2010	2010	2009	2010	2010	2009
Regulatory assets	$ 117	$ 125	$ 105	$ -	$ -	$ -
Regulatory liabilities	-	-	-	(10)	(9)	(9)
Accrued benefit liability (non-current)	(113)	(118)	(97)	(62)	(64)	(63)

Amounts recognized in regulatory assets and liabilities for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor:

	Pension Benefits			Other Postretirement Benefits		
	Successor	Predecessor		Successor	Predecessor	
	2010	2010	2009	2010	2010	2009
Transition obligation	$ -	$ -	$ -	$ 2	$ 2	$ 3
Prior service cost	3	4	5	1	1	2
Accumulated loss (gain)	114	121	100	(13)	(12)	(14)
Total regulatory assets and liabilities	$ 117	$ 125	$ 105	$ (10)	$ (9)	$ (9)

Additional information for plans with accumulated benefit obligations in excess of plan assets for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor:

	Pension Benefits			Other Postretirement Benefits		
	Successor	Predecessor		Successor	Predecessor	
	2010	2010	2009	2010	2010	2009
Benefit obligation	$ 354	$ 355	$ 316	$ 83	$ 84	$ 80
Accumulated benefit obligation	299	299	268	-	-	-
Fair value of plan assets	241	237	219	21	20	17

The amounts recognized in regulatory assets and liabilities for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor:

	Pension Benefits			Other Postretirement Benefits		
	Successor	Predecessor		Successor	Predecessor	
	2010	2010	2009	2010	2010	2009
Net (gain) loss arising during the period	$ (6)	$ 26	$ (22)	$ (1)	$ 2	$ 2
Amortization of prior service cost	-	(1)	(1)	-	-	-
Amortization of transitional obligation	-	-	-	-	(2)	(1)
Amortization of loss	(2)	(5)	(9)	-	-	-
Total amounts recognized in regulatory assets and liabilities	$ (8)	$ 20	$ (32)	$ (1)	$ -	$ 1

For discussion of the pension and postretirement regulatory assets, see Note 3, Rates and Regulatory Matters.

Components of Net Periodic Benefit Cost

The following tables provide the components of net periodic benefit cost for pension and other postretirement benefit plans. The tables include the costs associated with both KU employees and Servco employees who provide services to KU. The Servco costs are allocated to KU based on employees' labor charges and are approximately 51%, 49% and 46% of Servco's costs for 2010, 2009 and 2008, respectively.

	Pension Benefits					
	Successor			Predecessor		
	November 1, 2010 through December 31, 2010			January 1, 2010 through October 31, 2010		
	KU	Servco Allocation to KU	Total KU	KU	Servco Allocation to KU	Total KU
Service cost	$ 1	$ 1	$ 2	$ 5	$ 5	$ 10
Interest cost	3	2	5	16	6	22
Expected return on plan assets	(3)	(1)	(4)	(14)	(5)	(19)
Amortization of prior service cost	-	-	-	1	1	2
Amortization of actuarial gain	2	-	2	5	2	7
Net periodic benefit cost	$ 3	$ 2	$ 5	$ 13	$ 9	$ 22

	Pension Benefits					
	Predecessor - Year Ended December 31, 2009			Predecessor - Year Ended December 31, 2008		
	KU	Servco Allocation to KU	Total KU	KU	Servco Allocation to KU	Total KU
Service cost	$ 6	$ 5	$ 11	$ 6	$ 4	$ 10
Interest cost	18	7	25	18	6	24
Expected return on plan assets	(15)	(4)	(19)	(21)	(5)	(26)
Amortization of prior service cost	1	1	2	1	1	2
Amortization of actuarial gain	9	2	11	-	-	-
Net periodic benefit cost	$ 19	$ 11	$ 30	$ 4	$ 6	$ 10

	Other Postretirement Benefits					
	Successor			Predecessor		
	November 1, 2010 through December 31, 2010			January 1, 2010 through October 31, 2010		
	KU	Servco Allocation to KU	Total KU	KU	Servco Allocation to KU	Total KU
Service cost	$ -	$ -	$ -	$ 1	$ 1	$ 2
Interest cost	1	-	1	4	-	4
Expected return on plan assets	-	-	-	(1)	-	(1)
Amortization of transition obligation	-	-	-	1	-	1
Net periodic benefit cost	$ 1	$ -	$ 1	$ 5	$ 1	$ 6

	Other Postretirement Benefits					
	Predecessor - Year Ended December 31, 2009			Predecessor Year Ended December 31, 2008		
	KU	Servco Allocation to KU	Total KU	KU	Servco Allocation to KU	Total KU
Service cost	$ 1	$ 1	$ 2	$ 1	$ 1	$ 2
Interest cost	5	-	5	5	-	5
Expected return on plan assets	(1)	-	(1)	(1)	-	(1)
Amortization of transition obligation	1	-	1	1	-	1
Net periodic benefit cost	$ 6	$ 1	$ 7	$ 6	$ 1	$ 7

The estimated amounts that will be amortized from regulatory assets and liabilities into net periodic benefit cost in 2011 are shown in the following table:

	Pension Benefits	Other Postretirement Benefits
Regulatory assets and liabilities:		
Net actuarial loss	$ 8	$ -
Prior service cost	1	1
Transition obligation	-	1
Total regulatory assets and liabilities amortized during 2011	$ 9	$ 2

The weighted average assumptions used in the measurement of KU's pension and postretirement benefit obligations for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor are shown in the following table:

	Successor	Predecessor	
	December 31, 2010	October 31, 2010	December 31, 2009
Discount rate – pension benefits	5.52%	5.46%	6.13%
Discount rate – postretirement benefits	5.12%	4.96%	5.82%
Rate of compensation increase	5.25%	5.25%	5.25%

For the first ten months of 2010, the discount rates used to determine the pension and postretirement benefit obligations and the period expense were determined using the Mercer Pension Discount Yield Curve. This model takes the plans' cash flows and matches them to a yield curve that provides the equivalent yields on zero-coupon corporate bonds for each maturity. The discount rate is the single rate that produces the same present value of cash flows. The selection of the various discount rates represents the equivalent single rate under a broad-market AA yield curve constructed by Mercer.

For the last two months of 2010, the Towers Watson Yield Curve was used to determine the discount rate. This model also starts with an analysis of the expected benefit payment stream for its plans. This information is first matched against a spot-rate yield curve. A portfolio of Aa-graded non-callable (or callable with make-whole provisions) bonds, with a total amount outstanding in excess of $667 billion, serves as the base from which those with the lowest and highest yields are eliminated to develop the ultimate yield curve. The results of this analysis are considered together with other economic data and movements in various bond indices to determine the discount rate assumption.

The weighted average assumptions used in the measurement of KU's pension and postretirement net periodic benefit costs for November 1, 2010 through December 31, 2010, for the Successor, and for January 1, 2010 through October 31, 2010, and January 1, 2009 through December 31, 2009, for the Predecessor are shown in the following table:

	Successor	Predecessor		
	2010	2010	2009	2008
Discount rate - pension	5.45%	5.46%	6.25%	6.66%
Discount rate - postretirement	4.94%	5.82%	6.36%	6.56%
Expected long-term return on plan assets	7.25%	7.75%	8.25%	8.25%
Rate of compensation increase	5.25%	5.25%	5.25%	5.25%

To develop the expected long-term rate of return on assets assumption, KU considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the current asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. The Company has determined that the 2011 expected long-term rate of return on assets assumption should be 7.25%.

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

- A 1% change in the assumed discount rate would have a $39 million positive or negative impact to the 2010 accumulated benefit obligation and an approximate $51 million positive or negative impact to the 2010 projected benefit obligation.
- A 25 basis point change in the expected rate of return on assets would have resulted in less than a $1 million positive or negative impact to 2010 pension expense.
- A 25 basis point increase in the rate of compensation increase would have a $3 million negative impact to the 2010 projected benefit obligation.

Assumed Health Care Cost Trend Rates

For measurement purposes, an 8% annual increase in the per capita cost of covered health care benefits was assumed for the first ten months of 2010. The rate was assumed to decrease gradually to 4.5% by 2029 and remain at that level thereafter. For the last two months of 2010, an 8% annual increase in the per capita cost of covered health care benefits was assumed and the rate was assumed to decrease gradually to 5.5% by 2019. For 2011, a 9% annual increase in the per capita cost of covered health care benefits is assumed and the rate is assumed to decrease gradually to 5.5% by 2019. This change in the length of the health care trend was made to conform to PPL's accounting policies.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have resulted in an increase or decrease of less than $1 million to the 2010 total of service and interest costs components and an increase or decrease of $4 million in year end 2010 postretirement benefit obligations.

Expected Future Benefit Payments and Medicare Subsidy Receipts

The following list provides the amount of expected future benefit payments, which reflect expected future service costs and the estimated gross amount of Medicare subsidy receipts:

	Pension Benefits	Other Postretirement Benefits	Medicare Subsidy Receipts
2011	$ 18	$ 6	$ 1
2012	18	6	-
2013	18	6	1
2014	18	7	-
2015	18	7	1
2016-2020	106	36	3

Plan Assets

The following table shows the pension plan's weighted average asset allocation by asset category at December 31:

	Target Range	Successor 2010	Predecessor 2009
Equity securities	45% - 75%	56%	59%
Debt securities	30% - 50%	24%	40%
Other	0% - 10%	20%	1%
Totals		100%	100%

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

Evaluation of performance focuses on a long-term investment time horizon over rolling three and five-year periods. The assets of the pension plans are broadly diversified within different asset classes (equities, fixed income securities and cash equivalents).

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

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

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

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

KU has classified plan assets 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 guidance of the FASB ASC. See Note 6, Fair Value Measurements, for further information.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

A description of the valuation methodologies used to measure plan assets at fair value is provided below:

Money market funds: These investments are public investment vehicles valued using $1 for the net asset value. The money market funds are classified within level 2 of the valuation hierarchy.

Common/collective trusts: Valued based on the beginning of year value of the plan's interests in the trust plus actual contributions and allocated investment income (loss) less actual distributions and allocated administrative expenses. Quoted market prices are used to value investments in the trust, with the exception of the GAC. The fair value of certain other investments for which quoted market prices are not available are valued based on yields currently available on comparable securities of issuers with similar credit ratings. The common/collective trusts are classified within level 2 of the valuation hierarchy.

The preceding methods described may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Prior to the acquisition, the GAC was considered an immediate participation guarantee contract which was not included in the fair value table. In accordance with the plan accounting guidance of the FASB ASC, the cost incurred to purchase the GAC prior to March 20, 1992, was permitted to be carried at contract value, since it is a contract with an insurance company and prior to the acquisition it was excluded from the table above. The cost incurred to fund the GAC after March 20, 1992, was carried at contract value in accordance with the plan accounting guidance of the FASB ASC, since it was a contract that incorporates mortality and morbidity risk. Contract value represents cost plus interest income less distributions for benefits and administrative expenses. To conform to PPL's accounting methods, the John Hancock GAC was classified in the fair value table as a level 3 and as "other" rather than "debt securities" in the asset allocation table for the period ended December 31, 2010.

The following table sets forth, by level within the fair value hierarchy, the plan's assets at fair value at December 31:

	Successor		Predecessor	
	Level 2	Level 3	Level 2	Level 3
Money market funds	$ 2	$ -	$ 2	$ -
Common/collective trusts	213	-	186	-
John Hancock - GAC	-	47	-	-
Total investments at fair value	$ 215	$ 47	$ 188	$ -

The following table sets forth a reconciliation of changes in the fair value of the plan's level 3 assets for the following period:

	Successor
Balance at November 1, 2010	$ -
Purchases	1
Transfers into level 3	46
Balance at December 31, 2010	$ 47

There are no assets categorized as level 1 as of December 31, 2010 and December 31, 2009.

Contributions

KU made discretionary contributions to the pension plan of $13 million in 2010 and 2009. Servco made $9 million and $8 million in discretionary contributions to its pension plan in 2010 and 2009, respectively. The amount of future contributions to the pension plan will depend upon the actual return on plan assets and other factors, but the Company funds its pension obligations in a manner consistent with the Pension Protection Act of 2006. The Company made contributions totaling $43 million in January 2011.See Note 18, Subsequent Events, for further information.

The Company made contributions to its other postretirement benefit plan of $8 million in 2010 and $7 million in 2009. In 2011, the Company anticipates making 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.

Pension Legislation

The Pension Protection Act of 2006 was enacted in August 2006. New rules regarding funding of defined benefit plans are generally effective for plan years beginning in 2008. Among other matters, this comprehensive legislation contains provisions applicable to defined benefit plans which generally (i) mandate full funding of current liabilities within seven years; (ii) increase tax-deduction levels regarding contributions; (iii) revise certain actuarial assumptions, such as mortality tables and discount rates; and (iv) raise federal insurance premiums and other fees for under-funded and distressed plans. The legislation also contains a number of provisions relating to defined-contribution plans and qualified and non-qualified executive pension plans and other matters. The Company's plan met the minimum funding requirements as defined by the Pension Protection Act of 2006 for years ended December 31, 2010 and 2009.

Thrift Savings Plans

KU has a thrift savings plan under section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may defer and contribute to the plan a portion of current compensation in order to provide future retirement benefits. KU makes contributions to the plan by matching a portion of the employees' contributions. The costs of this matching were $3 million in 2010, 2009 and 2008.

KU also makes contributions to RIAs within the thrift savings plans for certain employees not covered by the non-contributory defined benefit pension plan. These employees consist of those hired after December 31, 2005. The Company makes these contributions based on years of service and the employees' wage and salary levels, and makes them in addition to the matching contributions discussed above. The amounts contributed by the Company under this arrangement were less than $1 million in 2010, 2009 and 2008.

Health Care Reform

In March 2010, Health Care Reform (the Patient Protection and Affordable Care Act of 2010) was signed into law. Many provisions of Health Care Reform do not take effect for an extended period of time and many aspects of the law which are currently unclear or undefined will likely be clarified in future regulations.

During 2010, KU recorded an income tax expense of less than $1 million to recognize the impact of the elimination of the tax deduction related to the Medicare Retiree Drug Subsidy that becomes effective in 2013.

Specific provisions within Health Care Reform that may impact KU include:

- Beginning in 2011, requirements extend dependent coverage up to age 26, remove the $2 million lifetime maximum and eliminate cost sharing for certain preventative care procedures.
- Beginning in 2018, a potential excise tax is expected on high-cost plans providing health coverage that exceeds certain thresholds.

The Company has evaluated these provisions of Health Care Reform on its benefit programs in consultation with its actuarial consultants and has determined that the excise tax will not have an impact on its postretirement medical plans. The requirement to extend dependent coverage up to age 26 is not expected to have a significant impact on active or retiree medical costs. The Company will continue to monitor the potential impact of any changes to the existing provisions and implementation guidance related to Health Care Reform on its benefit programs.

Note 10 - Income Taxes

KU's federal income tax return is included in a United States consolidated income tax return filed by LKE's direct parent. Prior to October 31, 2010 the return was included in the consolidated return of E.ON US Investments Corp. Due to the acquisition by PPL, the return will be included in the consolidated PPL return beginning November 1, 2010, for each tax period. Each subsidiary of the consolidated tax group, including KU, 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 2007 and later years are open under the federal statute of limitations, Revenue Agent Reports for 2007-2008 have been received from the IRS, effectively closing these years to additional audit adjustments. Tax years beginning with 2007 were examined under an IRS program, 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. KU had no adjustments for the 2007 federal tax return. For 2008, the IRS allowed additional deductions in connection with the Company's application for a change in repair deductions and disallowed certain bonus depreciation claimed on the original return. The net temporary tax impact for the Company was a $12 million reduction in tax and was recorded in the second quarter of 2010. The 2009 federal return was filed in the third quarter of 2010 and the IRS issued a Partial Acceptance Letter in connection with CAP. The IRS is continuing to review bonus depreciation, storms and other repairs. No net material adverse impact is expected from these remaining areas. The short tax year beginning January 1, 2010 through October 31, 2010, is also being examined under CAP. No material items have been raised by the IRS at this time. The two month period beginning November 1, 2010 and ending December 31, 2010 is not currently under examination.

Additions and reductions of uncertain tax positions during 2010, 2009 and 2008 were less than $1 million. Possible amounts of uncertain tax positions for KU that may decrease within the next 12 months total less than $1 million and are based on the expiration of the audit periods as defined in the statutes. If recognized, the less than $1 million of unrecognized tax benefits would reduce the effective income tax rate.

The amount KU recognized as interest expense and interest accrued related to unrecognized tax benefits was less than $1 million for the twelve month periods ended and as of December 31, 2010, 2009 and 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. KU records the interest as “Interest expense” and penalties, if any, as “Operating expenses” on the Statements of Income and “Other current liabilities” on the Balance Sheets, on a pre-tax basis. No penalties were accrued by the Company through December 31, 2010.

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

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Current:				
Federal	$ 13	$ 46	$ (5)	$ 46
State	3	9	1	10
Deferred:				
Federal – net	4	20	43	(10)
State – net	-	3	7	(3)
Investment tax credit – deferred	-	-	21	25
Total income tax expense	$ 20	$ 78	$ 67	$ 68

In June 2006, KU and LG&E filed a joint application with the U.S. Department of Energy (“DOE”) requesting certification to be eligible for an investment tax credit applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that KU and LG&E were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, KU received an Order from the Kentucky Commission approving the accounting of the investment tax credit, which includes a full depreciation basis adjustment for the amount of the credit. KU’s portion of the TC2 tax credit is approximately $101 million. Based on eligible construction expenditures incurred, KU recorded an investment tax credit of $21 million and $25 million in 2009 and 2008, respectively, decreasing current federal income taxes. As of December 31, 2009, KU had recorded its maximum credit of $101 million. The income tax expense impact from amortizing this credit over the life of the related property began when the facility was placed in service in January 2011.

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. The plaintiffs voluntarily dismissed their complaint in August 2010.

Components of deferred income taxes included in the Balance Sheets are shown below:

	Successor December 31, 2010	Predecessor December 31, 2009
Deferred income tax liabilities:		
Depreciation and other plant-related items	$ 347	$ 303
Regulatory assets and other	133	69
Total deferred income tax liabilities	480	372
Deferred income tax assets:		
Regulatory liabilities and other	80	-
Income taxes due to customers	2	4
Pensions and related benefits	9	17
Liabilities and other	19	18
Total deferred income tax assets	110	39
Net deferred income tax liabilities	$ 370	$ 333
Balance sheet classification:		
Prepayments and other current assets	$ (6)	$ (3)
Deferred income taxes (non-current)	376	336
Net deferred income tax liabilities	$ 370	$ 333

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

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

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Statutory federal income tax expense	$ 19	$ 77	$ 70	$ 79
State income taxes – net of federal benefit	2	8	5	5
Qualified production activities deduction	(1)	(4)	(1)	(3)
Dividends received deduction related to EEI investment	-	-	(3)	(8)
Reversal of excess deferred taxes	-	(2)	(2)	(1)
Other differences – net	-	(1)	(2)	(4)
Income tax expense	$ 20	$ 78	$ 67	$ 68
Effective income tax rate	36.4%	35.8%	33.5%	30.1%

The Tax Relief, Unemployment Reauthorization and Job Creation Act of 2010, enacted December 17, 2010 provided, among other provisions, certain incentives related to bonus depreciation and 100% expensing of qualifying capital expenditures. KU benefited from these new provisions by reducing its 2010 current federal income tax expense. This reduction in federal taxable income for KU does, however, result in a reduction of KU's Section 199 Manufacturing deduction, which is based on manufacturing taxable income and correspondingly increases income tax expense. The impact from these changes on 2010 was not material; however, KU anticipates a significant reduction of taxable income in 2011 and 2012 and a corresponding loss of most, if not all, of the Section 199 Manufacturing deduction for the following two years.

Note 11 - Long-Term Debt

As summarized below, at December 31, 2010, long-term debt consisted of first mortgage bonds and secured pollution control bonds. At December 31, 2009, long-term debt and the current portion of long-term debt consisted primarily of pollution control bonds and long-term loans from affiliated companies.

	Successor		Predecessor	
	2010		2009	
Current portion of long-term debt to affiliates	$	-	$	33
Long-term debt to affiliated companies		-		1,298
Secured first mortgage bonds, net of debt discount and amortization of debt discount		1,500		-
Pollution control revenue bonds, collateralized by first mortgage bonds		351		351
Fair value adjustment from purchase accounting		1		-
Unamortized discount		(11)		-
Total long-term debt		1,841		1,682
Less current portion		-		261
Long-term debt, excluding current portion	$	1,841	$	1,421

	Stated Interest Rates	Maturities	Debt Amounts	
Successor				
Outstanding at December 31, 2010:				
Current portion	N/A	N/A	$	-
Non-current portion	Variable – 6.00%	2015-2040		1,841
Predecessor				
Outstanding at December 31, 2009:				
Current portion	Variable – 4.240%	2010-2034	$	261
Non-current portion	Variable – 7.035%	2011-2037		1,421

As of December 31, 2009, long-term debt includes $228 million of pollution control bonds that were classified as current portion because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Carroll County 2002 Series A and B, 2004 Series A, 2006 Series B and 2008 Series A; Muhlenberg County 2002 Series A; and Mercer County 2000 Series A and 2002 Series A. Maturity dates for these bonds range from 2023 to 2034. As of December 31, 2009, the bonds were classified as current portion of long-term debt because investors could put the bonds back to the Company within one year. As of December 31, 2010, the bonds were reclassified as long-term debt. See Note 1, Summary of Significant Accounting Policies, for changes in classification.

Pollution control bonds are obligations of KU issued in connection with tax-exempt pollution control bonds by various counties in Kentucky. A loan agreement obligates the Company to make debt service payments to the counties in amounts equal to the debt service due from the counties on the related pollution control bonds. Depending on the type of expense, the Successor capitalized debt expenses in long-term other regulatory assets or long-term other assets to align with the term of the debt for which the expenses were related. The Predecessor capitalized debt expenses in current or long-term other regulatory assets or other current or long-term other assets based on the amount of expense expected to be recovered within the next year through rate recovery. Both Predecessor and Successor amortized debt expenses over the lives of the related bond issues. The Predecessor presentation and the Successor presentation are both appropriate under regulatory practices and GAAP.

In October 2010, in order to secure their respective obligations with respect to the pollution control bonds, KU issued first mortgage bonds to the pollution control bond trustees. KU's first mortgage bonds contain terms and conditions that are substantially parallel to the terms and conditions of the counties' debt, but provide that obligations are deemed satisfied to the extent of payments under the related loan agreement, and thus generally require no separate payment of principal and interest except under certain circumstances, including should KU default on the respective loan agreement. Also in October 2010, one national rating agency revised downward the short-term credit rating of the pollution control bonds and the Company's issuer rating as a result of the pending acquisition by PPL.

Several series of KU's 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 December 31, 2010, KU had an aggregate $351 million of outstanding pollution control indebtedness, of which $96 million is in the form of insured auction rate securities wherein interest rates are reset 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. Since 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.

The average annualized interest rates on the auction rate bonds follow:

Successor	Predecessor	
November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	December 31, 2009
0.53%	0.51%	0.44%

The instruments governing this auction rate bond permit KU to convert the bond 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.

As a result of downgrades of the monoline insurers by all of the rating agencies to levels below that of the Company's rating, the debt ratings of the Company's insured bonds are all based on the Company's senior secured debt rating and are not influenced by the monoline bond insurer ratings.

In connection with the PPL acquisition, on November 1, 2010, KU borrowed $1,331 million from a PPL subsidiary, in order to repay loans from a subsidiary of E.ON. KU used the net proceeds received from the sale of the first mortgage bonds to repay the debt owed to the PPL subsidiary arising from the borrowing.

In November 2010, KU issued first mortgage bonds totaling $1,500 million and used the proceeds to repay the loans from a PPL subsidiary mentioned above and for general corporate purposes. The first mortgage bonds were issued at a discount as described in the table below:

First Mortgage Bonds	Principal	Discount Price	First Mortgage Bonds Proceeds (a)
Series due 2015	$ 250	99.650%	$ 249
Series due 2020	500	99.622%	498
Series due 2040	750	98.915%	742
Total	$ 1,500		$ 1,489

(a) Before expenses other than discount to Purchaser

The first mortgage bonds were issued by KU in accordance with the rules of Section 144A of the Securities Act of 1933. KU has entered into a registration rights agreement in which it has agreed to file a registration statement with the SEC relating to an offer to exchange the first mortgage bonds for publicly tradable securities having substantially identical terms. If ultimate registration and/or certain milestones are not completed by certain dates in mid- and late 2011, the Company has agreed to pay liquidated damages to the bondholders. The liquidated damages would total 0.25% per annum of the principal amount of the bonds for the first 90 days and 0.50% per annum of the principal amount thereafter until the conditions described above have been cured.

There were no redemptions or maturities of long-term debt for 2009. Redemptions and maturities of long-term debt for 2010 are summarized below:

Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
Successor					
2010	Due to PPL Investment Corp.	$ 1,331	4.24%-7.035%	Unsecured	2010-2037
2010	Due to E.ON affiliates	1,331	4.24%-7.035%	Unsecured	2010-2037

Issuances of long-term debt for 2010 and 2009 are summarized below:

Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
Successor					
2010	Due to PPL Investment Corp.	$ 1,331	4.24%-7.035%	Unsecured	2010-2037
2010	First mortgage bonds	250	1.625%	Secured	2015
2010	First mortgage bonds	500	3.25%	Secured	2020
2010	First mortgage bonds	750	5.125%	Secured	2040
Predecessor					
2009	Due to E.ON affiliates	50	4.445%	Unsecured	2019
2009	Due to E.ON affiliates	50	4.81%	Unsecured	2019
2009	Due to E.ON affiliates	50	5.28%	Unsecured	2017

As of December 31, 2010, all of the Company's long-term debt is secured by a first mortgage lien on substantially all of the real and tangible personal property of the Company located in Kentucky.

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

2011	$ -
2012	-
2013	-
2014	-
2015	250
Thereafter	1,601
	$ 1,851

KU was in compliance with all debt covenants at December 31, 2010.

See Note 1, Summary of Significant Accounting Policies, for certain debt refinancing and associated transactions completed by KU in connection with the PPL acquisition, Note 2, Acquisition by PPL, for the adjustment made to the pollution control bonds to reflect fair value and Note 15, Related Party Transactions, for long-term debt payable to affiliates.

Note 12 - Notes Payable and Other Short-Term Obligations

Intercompany Revolving Line of Credit

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

	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
December 31, 2010, Successor	$ 400	$ 10	$ 390	0.25%
December 31, 2009, Predecessor	400	45	355	0.20%

LKE maintains revolving credit facilities totaling $300 million at December 31, 2010 and $313 million at December 31, 2009, to ensure funding availability for the money pool. At December 31, 2010, the LKE facility is with PPL Investment Corp. LKE pays PPL Investment Corp. an annual commitment fee based on the Utilities' current bond ratings on the unused portion of the commitment. At December 31, 2009, one facility, totaling $150 million, was with E.ON North America, Inc., while the remaining line, totaling $163 million, was with Fidelia, both affiliated companies of E.ON. The balances are as follows:

	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
December 31, 2010, Successor	$ 300	$ -	$ 300	N/A
December 31, 2009, Predecessor	313	276	37	1.25%

Bank Revolving Line of Credit

As of December 31, 2010, the Company maintained a $400 million revolving line of credit with a group of banks maturing in December 2014. The revolving line of credit allows KU to issue letters of credit or borrow funds up to $400 million. Outstanding letters of credit reduce the facility's available borrowing capacity. The Company pays the banks an annual commitment fee based on current bond ratings on the unused portion of the commitment. At December 31, 2010, there was no amount borrowed under this facility although letters of credit totaling $198 million have been issued under this facility. This credit agreement contains financial covenants requiring the borrower's debt to total capitalization ratio to not exceed 70%, as calculated pursuant to the credit agreement, and other customary covenants.

As of December 31, 2009, the Company maintained a $35 million bilateral line of credit with an unaffiliated financial institution maturing in June 2012. The Company paid the banks an annual commitment fee on the unused portion of the commitment. At December 31, 2009, there was no balance outstanding under this facility. This facility was terminated on November 1, 2010, in conjunction with the PPL acquisition.

On December 1, 2010, KU replaced the letters of credit issued under prior letter of credit facilities with letters of credit of the same amount issued under the revolving line of credit. The four letter of credit facilities were subsequently terminated.

KU was in compliance with all line of credit covenants at December 31, 2010.

See Note 1, Summary of Significant Accounting Policies, for certain debt refinancing and associated transactions completed by KU in connection with the PPL acquisition and Note 15, Related Party Transactions, for long-term debt payable to affiliates.

Note 13 - Commitments and Contingencies

Operating Leases

KU leases office space, office equipment, plant equipment, real estate, railcars, telecommunications and vehicles and accounts for these leases as operating leases. In addition, KU reimburses LG&E for a portion of the lease expense paid by LG&E for KU's usage of office space leased by LG&E. Total lease expense was $10 million, $10 million and $9 million for 2010, 2009 and 2008, respectively. The future minimum annual lease payments for operating leases for years subsequent to December 31, 2010, are shown in the following table:

2011	$	8
2012		7
2013		5
2014		5
2015		3
Thereafter		1
	$	29

Owensboro Contract Litigation and Termination

In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. In May 2009, KU and OMU executed a settlement agreement resolving the matter on a basis consistent with prior court rulings and KU has received the agreed settlement amounts. Pursuant to the settlement's operation, the OMU Agreement terminated in May 2010.

Sale and Leaseback Transaction

The Company is a participant in a sale and leaseback transaction involving its 62% interest in two jointly owned CTs at KU's E.W. Brown generating station (Units 6 and 7). Commencing in December 1999, KU and LG&E entered into a tax-efficient, 18-year lease of the CTs. The Utilities have provided funds to fully defease the lease and have executed an irrevocable notice to exercise an early purchase option contained in the lease after 15.5 years. The financial statement treatment of this transaction is no different than if the Utilities had retained its ownership interest. The leasing transaction was entered into following receipt of required state and federal regulatory approvals. At December 31, 2010, the Balance Sheets included these assets at a value of $65 million, which is reflected in "Regulated utility plant – electric."

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

At December 31, 2010, the maximum aggregate amount of default fees or amounts was $7 million, of which KU would be responsible for 62% (approximately $4 million). The Company has made arrangements with LKE, via guarantee and regulatory commitment, for LKE to pay its full portion of any default fees or amounts.

Letters of Credit

KU has provided letters of credit as of December 31, 2010 and 2009, for on-balance sheet obligations totaling $198 million to support bonds of $195 million and letters of credit for off-balance sheet obligations totaling less than $1 million to support certain obligations related to workers' compensation.

Commodity Purchases

OVEC

KU has a contract for power purchases with OVEC, terminating in 2026, for various Mw capacities. KU holds a 2.5% investment interest in OVEC with ten other electric utilities. KU is not the primary beneficiary; therefore, the investment is not consolidated into the Company's financial statements, but is recorded on the cost basis. OVEC is located in Piketon, Ohio, and owns and operates two coal-fired power plants, Kyger Creek Station in Ohio, and Clifty Creek Station in Indiana. KU is contractually entitled to 2.5% of OVEC's output, approximately 60 Mw of nameplate generation capacity. Pursuant to the OVEC power purchase contract, the Company may be conditionally responsible for a 2.5% pro-rata share of certain obligations of OVEC under defined circumstances. These contingent liabilities may include unpaid OVEC indebtedness as well as shortfall amounts in certain excess decommissioning costs and postretirement benefits other than pension. KU's contingent potential proportionate share of OVEC's December 31, 2010 outstanding debt was $35 million. Future obligations for power purchases from OVEC are demand payments, comprised of annual minimum debt service payments, as well as contractually required reimbursement of plant operating, maintenance and other expenses, and are shown in the following table:

2011	$	9
2012		10
2013		10
2014		10
2015		10
Thereafter		114
	$	163

Coal and Natural Gas Transportation Purchase Obligations

KU has contracts to purchase coal and natural gas transportation. Future obligations are shown in the following table:

2011	$	439
2012		200
2013		144
2014		93
2015		91
Thereafter		14
	$	981

Construction Program

KU had approximately $116 million of commitments in connection with its construction program at December 31, 2010.

In June 2006, KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price. During 2009 and 2010, KU received several contractual notices from the TC2 construction contractor asserting historical force majeure and excusable event claims for a number of adjustments to the contract price, construction schedule, commercial operations date, liquidated damages or other relevant provisions. In September 2010, KU and the construction contractor agreed to a settlement to resolve the force majeure and excusable event claims occurring through July 2010, under the TC2 construction contract, which settlement provided for a limited, negotiated extension of the contractual commercial operations date and/or relief from liquidated damage calculations. With limited exceptions the Company took care, custody and control of TC2 on January 22, 2011, and has dispatched the unit to meet customer demand since that date. KU and the contractor agreed to a further amendment of the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. KU cannot currently estimate the ultimate outcome of these matters.

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. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order upholding the permit. The environmental groups petitioned the EPA to object to the state permit and subsequent permit revisions. In determinations made in September 2008 and June 2009, the EPA rejected most of the environmental groups' claims but identified three permit deficiencies which the KDAQ addressed by revising the permit. In August 2009, the EPA issued an Order denying the remaining claims with the exception of two additional deficiencies which the KDAQ was directed to address. The EPA determined that the proposed permit subsequently issued by the KDAQ satisfied the conditions of the EPA Order although the agency recommended certain enhancements to the administrative record. In January 2010, the KDAQ issued a final permit revision incorporating the proposed changes to address the two EPA objections. In March 2010, the Sierra Club submitted a petition to the EPA to object to the permit revision, which is now pending before the EPA. The Company believes that the final permit as revised should not have a material adverse effect on its financial condition or results of operations. However, until the EPA issues a final ruling on the pending petition and all applicable appeals have been exhausted, the Company cannot predict the final outcome of this matter.

Environmental Matters

The Company's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. As indicated below and summarized at the conclusion of this section, evolving environmental regulations will likely increase the level of capital and operating and maintenance expenditures incurred by the Company during the next several years. Based upon prior regulatory precedent, the Company believes that many costs of complying with such pending or future requirements would likely be recoverable under the ECR or other potential cost-recovery mechanisms, but the Company can provide no assurance as to the ultimate outcome of such proceedings before the regulatory authorities.

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.

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. The remand of the CAIR results in some uncertainty with respect to certain other EPA or state programs and proceedings and the Utilities' compliance plans relating thereto due to the interconnection of the CAIR with such associated programs.

In January 2010, the EPA proposed a revised NAAQS for ozone which would increase the stringency of the standard. In addition, the EPA published final revised NAAQS standards for NO_2 and SO_2 in February 2010 and June 2010, respectively, which are more stringent than previous standards. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the revised NAAQS standards, KU's power plants are potentially subject to requirements for additional reductions in SO_2 and NOx emissions.

In July 2010, the EPA issued the proposed CATR, which serves to replace the CAIR. The CATR provides for a two-phase SO_2 reduction program with Phase I reductions due by 2012 and Phase II reductions due by 2014. The CATR provides for NOx reductions in 2012, but the EPA advised that it is studying whether additional NOx reductions should be required for 2014. The CATR is more stringent than the CAIR as it accelerates certain compliance dates and provides for only intrastate and limited interstate trading of emission allowances. In addition to its preferred approach, the EPA is seeking comment on an alternative approach which would provide for individual emission limits at each power plant. The EPA has announced that it will propose additional "transport" rules to address compliance with revised NAAQS standards for ozone and particulate matter which will be issued by the EPA in the future, as discussed below.

Hazardous Air Pollutants

As provided in 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 February 2008, a federal appellate court issued a decision vacating the CAMR. The EPA has entered into a consent decree requiring it to promulgate a utility Maximum Achievable Control Technology rule to replace the CAMR with a proposed rule due by March 2011 and a final rule by November 2011. Depending on the final outcome of the rulemaking, the CAMR could be replaced by new rules with different or more stringent requirements for reduction of mercury and other hazardous air pollutants. Kentucky has also repealed its corresponding state mercury regulations.

Acid Rain Program

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 Clean Air Act also contains 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 the 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. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's strategy for its Phase II SO_2 requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emission allowances and fuel switching to defer certain additional capital expenditures and continue to evaluate improvements to further reduce SO_2 emissions. KU believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner. KU expects to incur additional capital expenditures currently approved in its ECR plans totaling approximately $500 million during the 2011 through 2013 time period to achieve emissions reductions and manage coal combustion residuals. Monthly recovery is subject to periodic review by the Kentucky Commission.

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, 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 met 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. In Copenhagen, the U.S. made a nonbinding commitment to, among other things, seek to reduce GHG emissions to 17% below 2005 levels by 2020 and provide financial support to developing countries. The United States and other nations met in Cancun, Mexico, in December 2010 to continue negotiations toward a binding agreement.

GHG Legislation

KU 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 was a comprehensive energy bill containing the first-ever nation-wide GHG cap and trade program. The bill provided 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 have initially been allocated at no cost to the electric utility sector, with this allocation gradually declining to 7% in 2029 and zero thereafter. The bill would have also established a renewable electricity standard requiring utilities to meet 20% of their electricity demand through renewable energy and energy efficiency by 2020. The bill contained additional provisions regarding carbon capture and sequestration, clean transportation, smart grid advancement, nuclear and advanced technologies and energy efficiency.

In September 2009, the Clean Energy Jobs and American Power Act, which was largely patterned on the House legislation, was introduced in the U.S. Senate. The Senate bill raised the emissions reduction target for 2020 to 20% below 2005 levels and did not include a renewable electricity standard. While the initial bill lacked detailed provisions for the allocation of emissions allowances, a subsequent revision incorporated allowance allocation provisions similar to the House bill. Although Senators Kerry and Lieberman and others worked to reach a consensus on GHG legislation, no bill passed the Senate in 2010. The Company is closely monitoring the progress of pending energy legislation, but the prospect for passage of comprehensive GHG legislation in 2011 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 endanger public health and welfare, which is an initial rulemaking step under the Clean Air Act. A final endangerment finding was issued in December 2009. 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 are required to submit annual reports commencing with calendar year 2010. In May 2010, the EPA issued a final GHG "tailoring" rule, effective January 2011, requiring new or modified sources with GHG emissions equivalent to at least 75,000 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 rule. The final rule will apply to new and modified power plants beginning in January 2011. The Company is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted through legislation or regulations. In December 2010, the EPA announced that it plans to promulgate GHG New Source Performance Standards for power plants, including both new and existing facilities. A proposed rule is expected by July 2011, while a final rule is expected by May 2012. In the absence of either a proposed or final regulation, KU is unable to assess the potential impact of any future regulation.

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, a three judge panel of 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. In March 2010, the court vacated the opinion of the three-judge panel and granted a motion for rehearing but subsequently denied the appeal due to the lack of a quorum. The appellate ruling leaves in effect the lower court ruling dismissing the plaintiffs' claims. In January 2011, the Supreme Court denied petitioner's petition for review, which effectively brings the case to an end. The Comer complaint alleged that GHG emissions from the defendants' facilities contributed to global warming which increased the intensity of Hurricane Katrina. E.ON, the former indirect parent of the Utilities, was named as a defendant in the complaint but was not a party to the proceedings due to the failure of the plaintiffs to pursue service under the applicable international procedures. KU continues to monitor relevant GHG litigation to identify judicial developments that may be potentially relevant to operations.

Ghent Opacity NOV

In September 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's operating rules relating to opacity during June and July of 2007 at Units 1 and 3 of KU's Ghent generating station. The parties have met on this matter and KU has received no further communications from the EPA. The Company is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result.

Ghent New Source Review NOV

In March 2009, the EPA issued an NOV alleging that KU violated certain provisions of the Clean Air Act's rules governing new source review and prevention of significant deterioration by installing FGD and SCR controls at its Ghent generating station without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. In December 2009, the EPA issued a Section 114 information request seeking additional information on this matter. In March 2010, the Company received an EPA settlement proposal providing for imposition of additional permit limits and emission controls and anticipates continued settlement negotiations with the EPA. Negotiations between the EPA and KU are ongoing. Depending on the provisions of a final settlement or the results of litigation, if any, resolution of this matter could involve significant increased operating and capital expenditures. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination on the Company's financial position or results of operations.

Ash Ponds and Coal-Combustion Byproducts

The EPA has undertaken various initiatives in response to the December 2008 impoundment failure at the TVA'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 KU, 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 KU's impoundments, which the EPA found to be in satisfactory condition. In June 2010, the EPA published proposed regulations for coal combustion byproducts handled in landfills and ash ponds. The EPA has proposed two alternatives: (1) regulation of coal combustion byproducts in landfills and ash ponds as a hazardous waste or (2) regulation of coal combustion byproducts as a solid waste with minimum national standards. Under both alternatives, the EPA has proposed safety requirements to address the structural integrity of ash ponds. In addition, the EPA will consider potential refinements of the provisions for beneficial reuse of coal combustion byproducts.

Water Discharges and PCB Regulations

The EPA has also announced plans to develop revised effluent limitation guidelines governing discharges from power plants and standards for cooling water intake structures. The EPA has further announced plans to develop revised standards governing the use of polychlorinated biphenyls ("PCB") in electrical equipment. The Company is monitoring these ongoing regulatory developments but will be unable to determine the impact until such time as new rules are finalized.

Impact of Pending and Future Environmental Developments

As a company with significant coal-fired generating assets, KU will likely be substantially impacted by pending or future environmental rules or legislation requiring mandatory reductions in GHG emissions or other air emissions, imposing more stringent standards on discharges to waterways, or establishing additional requirements for handling or disposal of coal combustion byproducts. These evolving environmental regulations will likely require an increased level of capital expenditures and increased incremental operating and maintenance costs by the Company over the next several years. Due to the uncertain nature of the final regulations that will ultimately be adopted by the EPA, including the reduction targets and the deadlines that will be applicable, the Company cannot finalize estimates of the potential compliance costs, but should the final rules incorporate additional emission reduction requirements, require more stringent emissions controls or implement more stringent byproducts storage and disposal practices, such costs will likely be significant. With respect to NAAQS, CATR, CAMR replacement and coal combustion byproducts developments, based upon a preliminary analysis of proposed regulations, the Company may be required to consider actions such as upgrading existing emissions controls, installing additional emissions controls, upgrading byproducts disposal and storage and possible early replacement of coal-fired units. Capital expenditures for KU associated with such actions are preliminarily estimated to be in the $1.5 to $1.7 billion range over the next ten years, although final costs may substantially vary. With respect to potential developments in water discharge, revised PCB standards or GHG initiatives, costs in such areas cannot be estimated due to the preliminary status or uncertain outcome of such developments, but would be in addition to the above amount and could be substantial. Ultimately, the precise impact on the Company's operations of these various environmental developments cannot be determined prior to the finalization of such requirements. Based upon prior regulatory precedent, the Company believes that many costs of complying with such pending or future requirements would likely be recoverable under the ECR or other potential cost-recovery mechanisms, but the Company can provide no assurance as to the ultimate outcome of such proceedings before the regulatory authorities.

TC2 Water Permit

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County generating station. In October 2010, the hearing officer issued a report and recommended Order providing for dismissal of the claims raised by the petitioners. In December 2010, the Secretary issued a final Order dismissing all claims and upholding the permit which petitioners subsequently appealed to Trimble County Circuit Court.

General Environmental Proceedings

From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include a prior Section 114 information request from the EPA relating to new-source review issues at KU's Ghent unit 2; completed settlement with state regulators regarding compliance with particulate limits in the air permit for KU's Tyrone generating station; remediation obligations or activities for or other risks relating to elevated PCB levels at existing properties; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; and on-going claims regarding the GHG emissions from the Company's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the Company's operations.

Note 14 - Jointly Owned Electric Utility Plant

TC2 is a jointly owned unit at the Trimble County site. KU and LG&E own undivided 60.75% and 14.25% interests, respectively. Of the remaining 25%, IMEA owns a 12.12% undivided interest and IMPA owns a 12.88% undivided interest. Each company is responsible for its proportionate share of capital cost during construction and fuel, operation and maintenance cost when TC2 is in-service. With limited exceptions the Company took care, custody and control of TC2 on January 22, 2011, and has dispatched the unit to meet customer demand since that date. KU and the contractor agreed to a further amendment of the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. In December 2009 and June 2008, LG&E sold assets to KU related to the construction of TC2 with a net book value of $48 million and $10 million, respectively.

The following data represent shares of the jointly owned property (capacity based on nameplate rating):

	TC2				
	KU	LG&E	IMPA	IMEA	Total
Ownership interest	60.75%	14.25%	12.88%	12.12%	100%
Mw capacity	509	119	108	102	838

KU's 60.75% ownership:		LG&E's 14.25% ownership:	
Plant held for future use	$ 62	Plant held for future use	$ 2
Construction work in progress	703	Construction work in progress	187
Accumulated depreciation	(1)	Accumulated depreciation	-
Net book value	$ 764	Net book value	$ 189

KU and LG&E jointly own the following CTs and related equipment (capacity based on net summer capability) as of December 31, 2010:

	KU				LG&E				Total			
Ownership Percentage	Mw Capacity	Cost	Depr.	Net Book Value	Mw Capacity	Cost	Depr.	Net Book Value	Mw Capacity	Cost	Depr.	Net Book Value
KU 47%, LG&E 53% (a)	129	$ 43	$ -	$ 43	146	$ 48	$ -	$ 48	275	$ 91	$ -	$ 91
KU 62%, LG&E 38% (b)	190	64	(2)	62	118	40	(2)	38	308	104	(4)	100
KU 71%, LG&E 29% (c)	228	63	(1)	62	92	26	-	26	320	89	(1)	88
KU 63%, LG&E 37% (d)	404	109	(1)	108	236	64	(1)	63	640	173	(2)	171
KU 71%, LG&E 29% (e)	n/a	4	-	4	n/a	2	-	2	n/a	6	-	6

(a) Comprised of Paddy's Run 13 and E.W. Brown 5. In addition to the above jointly owned utility plant, there is an inlet air cooling system attributable to unit 5 and units 8-11 at the E.W. Brown facility. This inlet air cooling system is not jointly owned, however, it is used to increase production on the units to which it relates, resulting in an additional 88 Mw of capacity for KU.

(b) Comprised of units 6 and 7 at the E.W. Brown facility.
(c) Comprised of units 5 and 6 at the Trimble County facility.
(d) Comprised of CT Substation 7-10 and units 7, 8, 9 and 10 at the Trimble County facility.
(e) Comprised of CT Substation 5 and 6 and CT Pipeline at the Trimble County facility.

Both KU's and LG&E's participating share of direct expenses of the jointly owned plants is included in the corresponding operating expenses on each company's respective Statements of Income (i.e., fuel, maintenance of plant, other operating expense).

Note 15 - Related Party Transactions

KU and subsidiaries of LKE and PPL engage in related party transactions. Transactions between KU and LKE subsidiaries are eliminated on consolidation of LKE. Transactions between KU and PPL subsidiaries are eliminated on consolidation of PPL. These transactions are generally performed at cost and are in accordance with FERC regulations under PUHCA 2005 and the applicable Kentucky Commission and Virginia Commission regulations.

Intercompany Wholesale Sales and Purchases

KU and LG&E jointly dispatch their generation units with the lowest cost generation used to serve their retail native load. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail native load and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are recorded as intercompany wholesale sales and purchases are recorded by each company at a price equal to the seller's fuel cost. Savings realized from purchasing electricity intercompany instead of generating from their own higher costs units or purchasing from the market are shared equally between the Utilities. The volume of energy each company has to sell to the other is dependent on its native load needs and its available generation.

These sales and purchases are included in the Statements of Income as "Operating revenues", "Power purchased" expenses and "Other operation and maintenance expenses". KU's intercompany electric revenues and power purchased expenses were as follows:

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Electric operating revenues from LG&E	$ 2	$ 13	$ 21	$ 80
Power purchased and related operations and maintenance expenses from LG&E	21	79	101	109

Interest Charges

See Note 11, Long-Term Debt, and Note 12, Notes Payable and Other Short-Term Obligations, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

KU's interest expense to affiliated companies was as follows:

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Interest on money pool loans	$ -	$ -	$ -	$ 2
Interest on PPL loans	2	-	-	-
Interest on Fidelia loans	-	62	69	56

Interest paid to LKE on the money pool arrangement was less than $1 million for 2010 and 2009.

Dividends

In September 2010, the Company paid dividends of $50 million to its sole shareholder, LKE.

Capital Contributions

The Company received no capital contributions in 2010, but received capital contributions of $75 million and $145 million from its sole shareholder, LKE, in 2009 and 2008, respectively.

Sale of Assets

In 2010, KU sold and bought assets of less than $1 million to and from LG&E. In December 2009, LG&E sold assets to KU related to the construction of TC2 with a net book value of $48 million.

Other Intercompany Billings

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

In addition, the Utilities provide services to each other and to Servco. Billings between the Utilities 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 KU to Servco include cash received by Servco on behalf of KU, tax settlements and other payments made by the Company on behalf of other non-regulated businesses which are reimbursed through Servco.

Intercompany billings to and from KU were as follows:

	Successor	Predecessor		
	November 1, 2010 through December 31, 2010	January 1, 2010 through October 31, 2010	Year Ended December 31, 2009	Year Ended December 31, 2008
Servco billings to KU	$ 46	$ 233	$ 169	$ 227
LG&E billings to KU	14	49	44	5
KU billings to Servco	12	11	14	3
KU billings to LG&E	-	-	78	75

Intercompany Balances

The Company had the following balances with its affiliates:

	Successor	Predecessor
	December 31, 2010	December 31, 2009
Accounts receivable from LKE	$ 12	$ 9
Accounts payable to LG&E	22	53
Accounts payable to Servco	23	20
Accounts payable to Fidelia	-	15
Notes payable to LKE	10	45
Long-term debt to Fidelia	-	1,331

Note 16 - Selected Quarterly Data (Unaudited)

	For the 2010 Periods Ended (a)				
	Predecessor				Successor
	March 31	June 30	September 30	October 31	December 31
Operating revenues	$ 380	$ 350	$ 416	$ 102	$ 263
Operating income	87	71	105	22	65
Net income	44	31	54	11	35

(a) Periods ended March 31, June 30 and September 30 represent three months then ended. Period ended October 31 represents one month then ended and period ended December 31 represents two months then ended.

	For the 2009 Quarters Ended			
	Predecessor			
	March 31	June 30	September 30	December 31
Operating revenues	$ 363	$ 305	$ 341	$ 346
Operating income	19	53	125	72
Net income	7	26	66	34

Note 17 - Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consisted of the following:

	Pre-Tax Accumulated Derivative Gain (Loss)	Income Taxes	Net
Balance at December 31, 2009, Predecessor	$ -	$ -	$ -
Equity investee's other comprehensive income (loss)	(3)	1	(2)
Balance at October 31, 2010, Predecessor	(3)	1	(2)
Effect of PPL acquisition	3	(1)	2
Balance at December 31, 2010, Successor	$ -	$ -	$ -

Note 18 - Subsequent Events

Subsequent events have been evaluated through February 25, 2011, the date of issuance of these statements. These statements contain all necessary adjustments and disclosures resulting from that evaluation.

On January 31, 2011, KU filed a notice of intent to file a rate case with the Virginia Commission for the test year ended December 31, 2010. The case is expected to be filed on or after April 1, 2011.

With limited exceptions the Company took care, custody and control of TC2 on January 22, 2011, and has dispatched the unit to meet customer demand since that date. LG&E and KU and the contractor agreed to a further amendment of the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages.

On January 14, 2011, KU contributed $43 million to its pension plan.

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Report of Independent Auditors

To Stockholder of Kentucky Utilities Company

In our opinion, the accompanying balance sheet and the related statements of income, retained earnings, comprehensive income, cash flows, and capitalization present fairly, in all material respects, the financial position of Kentucky Utilities Company (Successor Company) at December 31, 2010 and the results of its operations and its cash flows for the period from November 1, 2010 to December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assertion of the effectiveness of internal control over financial reporting, included in "Management's Report of Internal Controls Over Financial Reporting" which appears on page 50. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) and in accordance with the auditing and attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2 to the financial statements, on November 1, 2010, PPL Corporation completed its acquisition of LG&E and KU Energy LLC and its subsidiaries. The push-down basis of accounting was used at the acquisition date.

A company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial

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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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 those charged with governance and (iii) provide reasonable assurance regarding prevention or timely detection and correction 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 and correct 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.

PricewaterhouseCoopers LLP

Louisville, Kentucky
February 25, 2011

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Report of Independent Auditors

To Stockholder of Kentucky Utilities Company

In our opinion, the accompanying balance sheet and the related statements of income, retained earnings, comprehensive income, cash flows, and capitalization present fairly, in all material respects, the financial position of Kentucky Utilities Company (Predecessor Company) at December 31, 2009 and the results of its operations and its cash flows for the period from January 1, 2010 to October 31, 2010 and for each of the two years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, on November 1, 2010, PPL Corporation completed its acquisition of LG&E and KU Energy LLC and its subsidiaries. The push-down basis of accounting was used at the acquisition date.

PricewaterhouseCoopers LLP

Louisville, Kentucky
February 25, 2011

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KENTUCKY UTILITIES CO

FORM 8-K
(Current report filing)

Filed 06/18/12 for the Period Ending 06/18/12

Address	ONE QUALITY ST LEXINGTON, KY 40507
Telephone	6062552100
CIK	0000055387
SIC Code	4911 - Electric Services
Fiscal Year	12/29

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 18, 2012

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
1-11459	**PPL Corporation** (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
333-173665	**LG&E and KU Energy LLC** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	**Louisville Gas and Electric Company** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	**Kentucky Utilities Company** (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

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

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 7 - Regulation FD

Item 7.01 Regulation FD Disclosure

On June 18, 2012, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU", and together with LG&E, the "Companies") delivered a notification to the Kentucky Public Service Commission ("KPSC") indicating their intention to terminate their pending Asset Purchase Agreement ("Agreement") entered into on September 15, 2011 with Bluegrass Generation Company L.L.C. ("Bluegrass"). The Agreement contemplated the purchase by the Companies of Bluegrass' 495 MW natural gas combustion turbine generating plant in LaGrange, Kentucky for an aggregate price of $110 million. The Companies anticipate delivering applicable contractual notices of termination to Bluegrass on or about June 19, 2012.

In May 2012, the proposed transaction was approved by the KPSC, but received conditional authorization from the Federal Energy Regulatory Commission ("FERC"), subject to approval by FERC of satisfactory market-power mitigation measures. After review of available potential mitigation options, the Companies determined that the available options were not commercially justifiable.

The planned acquisition did not relate to current power supply requirements of the Companies, but rather to anticipated longer-term needs, and the Companies will continue to review options for estimated future energy requirements. The termination of the Agreement does not alter the Companies' previously announced plans to construct a new 640 MW natural gas combined-cycle generation plant at an existing plant site and retire 797 MW of older, coal-fired generating units prior to 2016.

Statements in this Current Report, including statements with respect to future events and their timing, including the Companies' proposed activities, such as the planned construction, retirement and acquisition of generating units, as well as other statements as to future costs or expenses, regulation, corporate strategy and performance, are "forward-looking statements" within the meaning of the federal securities laws. Although PPL Corporation, LG&E and KU Energy LLC and the Companies believe that the expectations and assumptions reflected in these forward-looking statements are reasonable, these expectations, assumptions and statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: subsequent phases of contracting for, purchase of and construction of the new facilities or component equipment; subsequent regulatory approval or permitting proceedings; market demand and prices for electricity, fuel and electrical generating facilities; and political, regulatory or economic conditions in states, regions or countries where the Companies conduct business. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PPL Corporation's, LG&E and KU Energy LLC's and the Companies' Form 10-K and other reports on file with the Securities and Exchange Commission .

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller

LG&E AND KU ENERGY LLC

By: /s/ John N. Voyles, Jr.
John N. Voyles, Jr.
Vice President, Transmission and
Generation Services

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ John N. Voyles, Jr.
John N. Voyles, Jr.
Vice President, Transmission and
Generation Services

KENTUCKY UTILITIES COMPANY

By: /s/ John N. Voyles, Jr.
John N. Voyles, Jr.
Vice President, Transmission and
Generation Services

Dated: June 18, 2012

KENTUCKY UTILITIES CO

FORM 8-K
(Current report filing)

Filed 06/08/12 for the Period Ending 06/08/12

Address	ONE QUALITY ST LEXINGTON, KY 40507
Telephone	6062552100
CIK	0000055387
SIC Code	4911 - Electric Services
Fiscal Year	12/29

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 8, 2012

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
1-11459	**PPL Corporation** (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
333-173665	**LG&E and KU Energy LLC** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	**Louisville Gas and Electric Company** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	**Kentucky Utilities Company** (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

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

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 7 - Regulation FD

Item 7.01 Regulation FD Disclosure

and

Section 8 - Other Events

Item 8.01 Other Events

On June 8, 2012, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU", and together with LG&E, the "Companies") issued press releases announcing that they anticipate filing requests with the Kentucky Public Service Commission ("KPSC") for increases in annual base electric rates of $62.1 million and $82.4 million at LG&E and KU, respectively, and an increase in annual base gas rates of $17.2 million at LG&E.

The Companies anticipate filing the rate increase applications with the KPSC on or after June 29, 2012. Subject to KPSC review and approval, the rate increases could become effective on or after January 1, 2013.

In connection with the rate application, LG&E also anticipates filing with the KPSC a request for a certificate of public convenience and necessity, including a rate tracking mechanism, to allow it to acquire and repair certain existing customer-owned gas line connection equipment and recover the costs associated with such activities, as well as certain other gas system projects. The LG&E gas line tracker would encompass approximate total revenues of $120 million over an initial 5 year period from 2013-2017.

The Companies' anticipated requested increases represent increases in base electric rates of approximately 6.9 percent and 6.5 percent at LG&E and KU, respectively, and in LG&E base gas rates of approximately 7.0 percent. The Companies' anticipated applications include requests for authorized returns-on-equity at LG&E and KU of 11 percent each.

Copies of the press releases are furnished as Exhibits 99.1 and 99.2.

Section 9 - Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

99.1 - Press Release dated June 8, 2012 of Louisville Gas and Electric Company.

99.2 - Press Release dated June 8, 2012 of Kentucky Utilities Company.

Statements in this report and the accompanying press release, including statements with respect to future events and their timing, including the Companies' proposed regulatory filings, such as the requested rate increases and rate mechanisms and the future rates or returns on equity ultimately authorized or achieved, as well as other statements as to future costs or expenses, regulation, corporate strategy and performance, are "forward-looking statements" within the meaning of the federal securities laws. Although the Companies believe that the expectations and assumptions reflected in these forward-looking statements are reasonable, these expectations, assumptions and statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: subsequent phases of rate relief and regulatory cost recovery; market demand and prices for electricity; political, regulatory or economic conditions in states, regions or countries where the Companies conduct business; and the pace and magnitude of actual purchase or repair of assets subject to tracker mechanisms. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PPL Corporation's, LG&E and KU Energy LLC's and the Companies' Form 10-K and other reports on file with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller

LG&E AND KU ENERGY LLC

By: /s/ Gerald A. Reynolds
Gerald A. Reynolds
General Counsel, Chief Compliance Officer and Corporate Secretary

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Gerald A. Reynolds
Gerald A. Reynolds
General Counsel, Chief Compliance Officer and Corporate Secretary

KENTUCKY UTILITIES COMPANY

By: /s/ Gerald A. Reynolds
Gerald A. Reynolds
General Counsel, Chief Compliance Officer and Corporate Secretary

Dated: June 8, 2012

LG&E Requests Rate Change for Improved Service and Reliability

Increase amounts to less than 25 cents per day for electric and natural gas customers, to be effective January 2013, if approved by the Kentucky Public Service Commission

LOUISVILLE, Ky., (June 8, 2012) – Louisville Gas and Electric Company announced today it plans to file a request with the Kentucky Public Service Commission later this month to increase base electric rates by $62.1 million primarily to recover costs associated with improving service and reliability. The company is also requesting a $17.2 million base natural gas rate increase.

LG&E and its sister utility, Kentucky Utilities Company, have invested more than $1 billion over the last 29 months to meet energy demands and improve service and reliability. More than 4,000 generation, transmission and electric and gas distribution projects have occurred during that time.

Some of the largest investments were to meet customers' continued growing energy needs and enhance reliability–the new 585-megawatt unit at the Trimble County 2 Generating Station, one of the cleanest coal-fired units in the country, upgrades to the distribution and transmission systems and upgrades at Ohio Falls, the hydroelectric plant on the Ohio River. LG&E also made considerable investments in its natural gas business as part of its continued 615-mile natural gas main replacement project and increased leak surveying.

In addition, LG&E is requesting a Certificate of Public Convenience and Necessity for a proposed five-year natural gas line program, similar to what many other gas utilities around the country have done, to relieve customers from the responsibility of maintaining the part of the gas infrastructure called the "riser" – the pipe from the ground to the meter – and allow LG&E to make necessary repairs on it. As part of the program, LG&E would proactively replace certain gas risers and take ownership of the natural gas line segment that runs from the customer property line to the LG&E gas meter. The costs associated with this program and the continuation of the gas main replacement project would be recovered under a new rate mechanism called a "gas line tracker," which would appear as a separate line item on LG&E natural gas customers' bills.

The utilities have taken significant steps to improve service by creating nearly 175 new jobs since the last rate case. Many of the positions are located in Morganfield at LG&E's and KU's new customer care center, where approximately 50 employees were hired.

The utilities also have created a number of jobs to help meet tighter federal cyber security standards as well as more stringent transmission reliability requirements. LG&E and KU were honored last year for superior commitment to reliability performance by SERC Reliability Corporation, the nonprofit organization responsible for promoting and improving system reliability.

"We are creating additional jobs, adding cleaner energy and improving our service to ensure that we continue to deliver safe and reliable energy at the lowest cost possible," said Victor A. Staffieri, chairman, CEO and president of LG&E and KU. "We continue to be ranked as an industry leader in areas such as low rates, safety, reliability and operational excellence, and, just as a vehicle needs regular maintenance, we must continue to invest in our system."

For a residential LG&E electric customer using 1,000 kWh per month, this will mean an increase of approximately $7.21 per month, or less than 25 cents per day. For a natural gas customer using 60 Ccf per month, the base rate increase will be approximately $3.44 per month, or 11 cents per day. The initial cost associated with the gas line tracker would be approximately $2.35 per month beginning 2013.

LG&E will file for the increase on June 29 and, if approved, the increases will not occur until January 2013. Customers can visit www.lge-ku.com/rates for more information concerning the requested rate adjustments.

To help offset the requested rate increases, customers are encouraged to take action and enroll in the company's energy efficiency programs designed to help customers save energy and money. Visit www.lge-ku.com/savingenergy for a complete list of energy efficiency programs and services.

Louisville Gas and Electric Company and Kentucky Utilities Company, part of the PPL Corporation (NYSE: PPL) family of companies, are regulated utilities that serve a total of 1.2 million customers and have consistently ranked among the best companies for customer service in the United States. LG&E serves 321,000 natural gas and 397,000 electric customers in Louisville and 16 surrounding counties. Kentucky Utilities serves 546,000 customers in 77 Kentucky counties and five counties in Virginia. More information is available at www.lge-ku.com and www.pplweb.com .

Kentucky Utilities Requests Rate Change for Improved Service and Reliability
Increase amounts to less than 25 cents per day, to be effective January 2013, if approved by the Kentucky Public Service Commission

LEXINGTON, Ky., (June 8, 2012) – Kentucky Utilities Company announced today it plans to file a request with the Kentucky Public Service Commission later this month to increase base electric rates by $82.4 million primarily to recover costs associated with improving service and reliability.

KU and its sister utility, Louisville Gas and Electric Company, have invested nearly $1 billion in the last 29 months to meet energy demands and improve service and reliability. More than 4,000 generation, transmission and electric and gas distribution projects have occurred during that time.

Some of the largest investments were to meet customers' continued growing energy needs and enhance reliability–the new 585-megawatt unit at the Trimble County 2 Generating Station, one of the cleanest coal-fired units in the country, upgrades to the distribution system and transmission systems, enhanced substation reliability and upgrades at Dix Dam, the hydroelectric plant on Lake Herrington.

The utilities have taken significant steps to improve service by creating nearly 175 new jobs since the last rate case. Many of the positions are located in Morganfield at LG&E's and KU's new customer care center, where approximately 50 employees were hired.

The utilities also have created a number of jobs to help meet tighter federal cyber security standards as well as more stringent transmission reliability requirements. KU and LG&E were honored last year for superior commitment to reliability performance by SERC Reliability Corporation, the non-profit organization responsible for promoting and improving system reliability.

"We are creating additional jobs, adding cleaner energy and improving our service to ensure that we continue to deliver safe and reliable energy at the lowest cost possible," said Victor A. Staffieri, chairman, CEO and president of LG&E and KU. "We continue to be ranked as an industry leader in areas such as low rates, safety, reliability and operational excellence, and, just as a vehicle needs regular maintenance, we must continue to invest in our system."

For a residential KU customer using 1,000 kWh per month, this will mean an increase of approximately $6.98 per month, or less than 25 cents per day.

KU will file for the increase on June 29 and, if approved, the increase will not occur until January 2013. Customers can visit www.lge-ku.com/rates for more information concerning the requested rate adjustments.

To help offset the requested rate increase, customers are encouraged to take action and enroll in the company's energy efficiency programs designed to help customers save energy and money. Visit www.lge-ku.com/savingenergy for a complete list of energy efficiency programs and services.

Louisville Gas and Electric Company and Kentucky Utilities Company, part of the PPL Corporation (NYSE: PPL) family of companies, are regulated utilities that serve a total of 1.2 million customers and have consistently ranked among the best companies for customer service in the United States. LG&E serves 321,000 natural gas and 397,000 electric customers in Louisville and 16 surrounding counties. Kentucky Utilities serves 546,000 customers in 77 Kentucky counties and five counties in Virginia. More information is available at www.lge-ku.com and www.pplweb.com .

PPL CORP

FORM 8-K
(Current report filing)

Filed 05/04/12 for the Period Ending 05/03/12

Address	TWO N NINTH ST ALLENTOWN, PA 181011179
Telephone	6107745151
CIK	0000922224
Symbol	PPL
SIC Code	4911 - Electric Services
Industry	Electric Utilities
Sector	Utilities
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 3, 2012

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

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

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 2 - Financial Information

Item 2.02 Results of Operations and Financial Condition

On May 4, 2012, PPL Corporation ("PPL") issued a press release announcing its financial results for the quarter ended March 31, 2012 and other business matters. A copy of the press release is furnished as Exhibit 99.1.

Section 7 - Regulation FD

Item 7.01 Regulation FD Disclosure

On May 4, 2012, at 9:00 a.m. (Eastern Time), members of PPL's senior management will hold a teleconference and webcast with financial analysts to discuss PPL's financial results for the quarter ended March 31, 2012 and other business matters. A copy of the slides to be used during the webcast is furnished as Exhibit 99.2. The event will be available live, in audio format, along with the slides, on PPL's Internet Web site: www.pplweb.com. The webcast will be available for replay on PPL's Web site for 30 days.

On May 3, 2012, PPL's wholly owned subsidiary, LG&E and KU Energy LLC, issued a press release announcing approval by the Kentucky Public Service Commission for Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") to construct a new 640MW natural gas combined-cycle generating plant at LG&E's and KU's existing Cane Run plant site and to purchase an existing 495MW natural gas peaking plant from Bluegrass Generation Company, L.L.C. A copy of the press release is furnished as Exhibit 99.3.

Section 9 - Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

99.1 - Press Release, dated May 4, 2012, announcing PPL's financial results for the quarter ended March 31, 2012, and other business matters.

99.2 - Slides to be used on the May 4, 2012 webcast among members of PPL's senior management and financial analysts.

99.3 - Press Release, dated May 3, 2012, announcing approval by the Kentucky Public Service Commission of certain generation acquisition and construction projects of Louisville Gas and Electric Company and Kentucky Utilities Company.

SIGNATURE

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

PPL CORPORATION

By: /s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller

Dated: May 4, 2012

Exhibit 99.1

Contacts: For news media – George E. Biechler, 610-774-5997
For financial analysts – Joseph P. Bergstein, 610-774-5609

PPL Reports First-Quarter Earnings

- First-quarter earnings increase over prior year
- Per share earnings from ongoing operations down on higher shares outstanding
- Company on track to achieve ongoing earnings forecast for 2012

ALLENTOWN, Pa. (May 4, 2012) — PPL Corporation (NYSE: PPL) on Friday (5/4) announced first-quarter 2012 reported earnings of $541 million, or $0.93 per share, up from $401 million, or $0.82 per share, a year ago.

Excluding special items, PPL's earnings from ongoing operations for the quarter were $409 million, or $0.70 per share, compared with $407 million, or $0.84 per share, a year ago.

PPL's first-quarter earnings from ongoing operations reflect dilution of $0.14 per share as a result of the April 2011 common stock issuance to fund the acquisition that substantially expanded PPL's regulated utility operations in the United Kingdom.

"Our first-quarter results keep us solidly on track to achieve our earnings forecast for 2012," said William H. Spence, PPL's chairman, president and chief executive officer. "They were in line with our expectations, despite lower electricity sales due to extraordinarily mild winter weather in the eastern U.S."

"The successful execution of our Midlands integration plan in the U.K. is driving cost savings and operational improvements, demonstrating again the value of our expansion into diverse markets and the attainment of a more predictable earnings profile. At the same time, our competitive supply segment is successfully navigating through challenging commodity markets," Spence said.

PPL reaffirmed its 2012 forecast of $2.15 to $2.45 per share in earnings from ongoing operations. Its 2012 forecast of reported earnings is $2.38 to $2.68 per share, reflecting special items recorded through the first quarter of 2012.

First-Quarter 2012 Earnings Details

PPL's reported earnings for the first quarter of 2012 included net special item credits of $0.23 per share, reflecting a credit of $0.26 per share in adjusted energy-related economic activity. Included in this energy-related economic activity is a credit of $0.17 per share, representing the change in fair value during the first quarter of 2012 for transactions that were previously recorded as cash flow hedges at Dec. 31, 2011. These transactions will be recognized in PPL's earnings from ongoing operations in 2012 and 2013 as the transactions settle.

Reported earnings are calculated in accordance with U.S. generally accepted accounting principles (GAAP). Earnings from ongoing operations is a non-GAAP financial measure that is adjusted for special items. Special items include the impact of adjusted energy-related economic activity (principally changes in fair value of economic hedges and the ineffective portion of qualifying cash flow hedges), acquisition-related adjustments, as well as other impacts fully detailed at the end of this news release.

(Dollars in millions, except for per share amounts)

	1st Quarter 2012	1st Quarter 2011	% Change
Reported Earnings	$541	$401	+35%
Reported Earnings Per Share	$0.93	$0.82	+13%
Earnings from Ongoing Operations	$409	$407	-
Per Share Earnings from Ongoing Operations	$0.70	$0.84	-17%

(See the tables at the end of this news release for details as to the reconciliation of earnings from ongoing operations to reported earnings.)

First-Quarter 2012 Earnings by Business Segment

The following chart shows PPL's earnings by business segment for the first quarter of 2012, compared with the same period of 2011.

	1st Quarter 2012	1st Quarter 2011
	(per share)	
Earnings from Ongoing Operations		
Kentucky Regulated	$ 0.06	$ 0.15
U.K. Regulated	0.31	0.16
Pennsylvania Regulated	0.06	0.11
Supply	0.27	0.42
Total	$ 0.70	$ 0.84
Special Items		
Kentucky Regulated	$ 0.01	$ -
U.K. Regulated	(0.03)	(0.05)
Pennsylvania Regulated	-	-
Supply	0.25	0.03
Total	$ 0.23	$ (0.02)
Reported Earnings		
Kentucky Regulated	$ 0.07	$ 0.15
U.K. Regulated	0.28	0.11
Pennsylvania Regulated	0.06	0.11
Supply	0.52	0.45
Total	$ 0.93	$ 0.82

(For more details and a breakout of special items by segment, see the reconciliation tables at the end of this news release.)

Key Factors Impacting Business Segment Earnings from Ongoing Operations

Kentucky Regulated Segment

PPL's Kentucky regulated segment primarily consists of the regulated electricity and natural gas operations of Louisville Gas and Electric Company and Kentucky Utilities Company.

Segment earnings from ongoing operations in the first quarter of 2012 declined by $0.09 per share compared with a year ago. This decline was primarily due to lower retail volumes as a result of extraordinarily mild winter weather, higher operation and maintenance expense, higher depreciation, and dilution of $0.01 per share.

U.K. Regulated Segment
PPL's U.K. regulated segment consists of the regulated electricity delivery operations of Western Power Distribution, serving Southwest and Central England and South Wales. This segment, formerly known as the international regulated segment, has been renamed to more specifically denote the U.K. focus.

Segment earnings from ongoing operations in the first quarter of 2012 rose by $0.15 per share compared with a year ago. This increase was primarily due to the strong operating results of the Midlands businesses, which were not included in the 2011 results. Also contributing to segment earnings were higher operating results at WPD's legacy delivery operations due to higher delivery revenues, partially offset by higher pension expense. These net positive results were partially offset by higher U.S. income taxes and dilution of $0.06 per share.

Pennsylvania Regulated Segment
PPL's Pennsylvania regulated segment consists of the regulated electricity delivery operations of PPL Electric Utilities.

Segment earnings from ongoing operations in the first quarter of 2012 declined by $0.05 per share compared with a year ago. This decline was primarily due to lower retail volumes as a result of extraordinarily mild winter weather, higher operation and maintenance expense, higher depreciation, and dilution of $0.01 per share.

Supply Segment
PPL's supply segment consists primarily of the competitive domestic electricity generation and the energy marketing operations of PPL Energy Supply.

Segment earnings from ongoing operations in the first quarter of 2012 declined by $0.15 per share compared with a year ago. This decline was primarily due to lower Eastern energy margins as a result of lower energy and capacity prices, which were partially offset by higher nuclear generation. Also contributing to the decline were higher operation and maintenance expense, higher depreciation, and dilution of $0.06 cents per share. These net negative earnings drivers were partially offset by lower income taxes.

2012 Earnings from Ongoing Operations Forecast by Business Segment

Earnings (per share)	**2012 (Forecast) midpoint**	**2011 (Actual)**
Kentucky Regulated	$0.33	$0.40
U.K. Regulated	1.07	0.87
Pennsylvania Regulated	0.20	0.31
Supply	0.70	1.15
Total	$2.30	$2.73

PPL expects lower earnings in 2012 compared with 2011, primarily due to lower energy margins in the supply segment, partially offset by a full year of earnings from the Midlands businesses. These projected earnings also reflect dilution of $0.13 per share associated with PPL's April 2011 issuance of common stock to finance the Midlands acquisition.

Kentucky Regulated Segment
PPL projects lower segment earnings in 2012 compared with 2011, primarily driven by higher operation and maintenance expense and higher depreciation, which are expected to be partially offset by higher margins. Dilution for 2012 is expected to be $0.02 per share.

U.K. Regulated Segment
PPL projects higher segment earnings in 2012 compared with 2011, primarily driven by four additional months of earnings from the Midlands businesses and higher electricity delivery revenue. Partially offsetting these positive earnings drivers are higher income taxes, higher operation and maintenance expense, higher depreciation, higher financing costs and a less favorable currency exchange rate. Dilution for 2012 is expected to be $0.06 per share.

Pennsylvania Regulated Segment
PPL expects lower segment earnings in 2012 compared with 2011, primarily driven by higher operation and maintenance expense, higher depreciation, and lower distribution revenue, which are expected to be partially offset by higher transmission revenue and lower financing costs. Dilution for 2012 is expected to be $0.01 per share.

Supply Segment
PPL expects lower segment earnings in 2012 compared with 2011. The decrease is primarily driven by lower energy margins as a result of lower energy and capacity prices and higher fuel costs, higher operation and maintenance expense, and higher depreciation, which are expected to be partially offset by higher baseload generation. Dilution for 2012 is expected to be $0.04 per share.

PPL Corporation, headquartered in Allentown, Pa., owns or controls about 19,000 megawatts of generating capacity in the United States, sells energy in key U.S. markets, and delivers electricity and natural gas to about 10 million customers in the United States and the United Kingdom. More information is available at www.pplweb.com .

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(*Note: All references to earnings per share in the text and tables of this news release are stated in terms of diluted earnings per share.*)

Conference Call and Webcast

PPL invites interested parties to listen to a live Internet webcast of management's teleconference with financial analysts about first-quarter 2012 financial results at 9 a.m. EDT Friday, May 4. The meeting is available online live, in audio format, along with slides of the presentation, on PPL's website: www.pplweb.com. The webcast will be available for replay on the PPL website for 30 days. Interested individuals also can access the live conference call via telephone at 702-696-4769 (ID#74989631).

"Earnings from ongoing operations" should not be considered as an alternative to reported earnings, or net income attributable to PPL, which is an indicator of operating performance determined in accordance with generally accepted accounting principles (GAAP). PPL believes that "earnings from ongoing operations," although a non-GAAP financial measure, is also useful and meaningful to investors because it provides management's view of PPL's fundamental earnings performance as another criterion in making investment decisions. PPL's management also uses "earnings from ongoing operations" in measuring certain corporate performance goals. Other companies may use different measures to present financial performance.

"Earnings from ongoing operations" is adjusted for the impact of special items. Special items include:

- *Adjusted energy-related economic activity (as discussed below).*
- *Foreign currency-related economic hedges.*
- *Gains and losses on sales of assets not in the ordinary course of business.*
- *Impairment charges (including impairments of securities in the company's nuclear decommissioning trust funds).*
- *Workforce reduction and other restructuring impacts.*
- *Acquisition-related adjustments.*
- *Other charges or credits that are, in management's view, not reflective of the company's ongoing operations.*

Adjusted energy-related economic activity includes the changes in fair value of positions used economically to hedge a portion of the economic value of PPL's generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Also included in energy-related economic activity is the ineffective portion of qualifying cash flow hedges, the monetization of certain full-requirement sales contracts and premium amortization associated with options. This economic activity is deferred, with the exception of the full-requirement sales contracts that were monetized, and included in earnings from ongoing operations over the delivery period of the item that was hedged or upon realization. Management believes that adjusting for such amounts provides a better matching of earnings from ongoing operations to the actual amounts settled for PPL's underlying hedged assets. Please refer to the Notes to the Consolidated Financial Statements and MD&A in PPL Corporation's periodic filings with the Securities and Exchange Commission for additional information on energy-related economic activity.

Statements contained in this news release, including statements with respect to future earnings, cash flows, financing, regulation and corporate strategy, are "forward-looking statements" within the meaning of the federal securities laws. Although PPL Corporation believes that the expectations and assumptions reflected in these forward-looking statements are reasonable, these statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: market demand and prices for energy, capacity and fuel; weather conditions affecting customer energy usage and operating costs; competition in power markets; the effect of any business or industry restructuring; the profitability and liquidity of PPL Corporation and its subsidiaries; new accounting requirements or new interpretations or applications of existing requirements; operating performance of plants and other facilities; the length of scheduled and unscheduled outages at our plants; environmental conditions and requirements and the related costs of compliance, including environmental capital expenditures and emission allowance and other expenses; system conditions and operating costs; development of new projects, markets and technologies; performance of new ventures; asset or business acquisitions and dispositions, and PPL Corporation's ability to realize the expected benefits from acquired businesses, including the 2010 acquisition of Louisville Gas and Electric Company and Kentucky Utilities Company and the 2011 acquisition of the Central Networks electricity distribution businesses in the U.K.; any impact of hurricanes or other severe weather on our business, including any impact on fuel prices; receipt of necessary government permits, approvals, rate relief and regulatory cost recovery; capital market conditions and decisions regarding capital structure; the impact of state, federal or foreign investigations applicable to PPL Corporation and its subsidiaries; the outcome of litigation against PPL Corporation and its subsidiaries; stock price performance; the market prices of equity securities and the impact on pension income and resultant cash funding requirements for defined benefit pension plans; the securities and credit ratings of PPL Corporation and its subsidiaries; political, regulatory or economic conditions in states, regions or countries where PPL Corporation or its subsidiaries conduct business, including any potential effects of threatened or actual terrorism or war or other hostilities; foreign exchange rates; new state, federal or foreign legislation, including new tax legislation; and the commitments and liabilities of PPL Corporation and its subsidiaries. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PPL Corporation's Form 10-K and other reports on file with the Securities and Exchange Commission.

# # #

Note to Editors: Visit PPL's media website at www.pplnewsroom.com for additional news and background about PPL Corporation and its subsidiaries.

PPL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED FINANCIAL INFORMATION (a)

Condensed Consolidated Balance Sheets (Unaudited)
(Millions of Dollars)

	March 31, 2012	December 31, 2011
Assets		
Cash and cash equivalents	$ 1,103	$ 1,202
Price risk management assets - current	3,230	2,548
Other current assets	2,729	2,676
Investments	768	718
Property, Plant and Equipment		
Regulated utility plant	23,544	22,994
Less: Accumulated depreciation	3,701	3,534
Regulated utility plant, net	19,843	19,460
Non-regulated property, plant and equipment	11,915	11,809
Less: Accumulated depreciation	5,758	5,676
Non-regulated property, plant and equipment, net	6,157	6,133
Construction work in progress	1,706	1,673
Property, Plant and Equipment, net	27,706	27,266
Regulatory assets	1,334	1,349
Goodwill and other intangibles	5,225	5,179
Price risk management assets - noncurrent	1,186	920
Other noncurrent assets	801	790
Total Assets	$ 44,082	$ 42,648
Liabilities and Equity		
Short-term debt	$ 674	$ 578
Price risk management liabilities - current	2,149	1,570
Other current liabilities	3,065	3,107
Long-term debt	18,076	17,993
Deferred income taxes and investment tax credits	3,884	3,611
Price risk management liabilities - noncurrent	1,074	840
Accrued pension obligations	1,105	1,299
Regulatory liabilities	1,009	1,010
Other noncurrent liabilities	1,511	1,544
Common stock and additional paid in capital	6,868	6,819
Earnings reinvested	5,129	4,797
Accumulated other comprehensive loss	(730)	(788)
Noncontrolling interests	268	268
Total Liabilities and Equity	$ 44,082	$ 42,648

(a) The Financial Statements in this news release have been condensed and summarized for purposes of this presentation. Please refer to PPL Corporation's periodic filings with the Securities and Exchange Commission for full financial statements, including note disclosure.

PPL CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Income (Unaudited)
(Millions of Dollars, Except Share Data)

	3 Months Ended March 31,	
	2012 (a)	2011 (a)
Operating Revenues		
Utility	$ 1,714	$ 1,536
Unregulated retail electric and gas (b)	223	147
Wholesale energy marketing		
Realized	1,208	1,038
Unrealized economic activity (b)	852	57
Net energy trading margins	8	11
Energy-related businesses	107	121
Total Operating Revenues	4,112	2,910
Operating Expenses		
Operation		
Fuel (b)	424	475
Energy purchases		
Realized	883	671
Unrealized economic activity (b)	591	(18)
Other operation and maintenance	706	583
Depreciation	264	208
Taxes, other than income	91	73
Energy-related businesses	102	113
Total Operating Expenses	3,061	2,105
Operating Income	1,051	805
Other Income (Expense) - net	(17)	(5)
Other-Than-Temporary Impairments		1
Interest Expense	230	174
Income from Continuing Operations Before Income Taxes	804	625
Income Taxes	259	223
Income from Continuing Operations After Income Taxes	545	402
Income (Loss) from Discontinued Operations (net of income taxes)		3
Net Income	545	405
Net Income Attributable to Noncontrolling Interests	4	4
Net Income Attributable to PPL Corporation	$ 541	$ 401
Amounts Attributable to PPL Corporation:		
Income from Continuing Operations After Income Taxes	$ 541	$ 398
Income (Loss) from Discontinued Operations (net of income taxes)		3
Net Income	$ 541	$ 401
Earnings Per Share of Common Stock - Basic		
Net Income Available to PPL Corporation Common Shareowners	$ 0.93	$ 0.82
Earnings Per Share of Common Stock - Diluted (c)		
Earnings from Ongoing Operations	$ 0.70	$ 0.84
Special Items	0.23	(0.02)
Net Income Available to PPL Corporation Common Shareowners	$ 0.93	$ 0.82
Weighted-Average Shares of Common Stock Outstanding (in thousands)		
Basic	579,041	484,138
Diluted	579,527	484,345

(a) The results of operations for 2012 are not comparable with 2011 due to the April 2011 acquisition of WPD Midlands.
(b) Includes activity from energy-related contracts to hedge future cash flows that were not eligible for hedge accounting, or for which hedge accounting was not elected.
(c) Earnings in 2012 and 2011 were impacted by several special items, as described in the text and tables of this news release. Earnings from ongoing operations exclude the impact of these special items.

PPL CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)
(Millions of Dollars)

	3 Months Ended March 31, 2012 (a)	3 Months Ended March 31, 2011 (a)
Cash Flows from Operating Activities		
Net income	$ 545	$ 405
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	264	208
Amortization	55	47
Defined benefit plans - expense	42	39
Deferred income taxes and investment tax credits	257	204
Unrealized (gains) losses on derivatives, and other hedging activities	(235)	(96)
Change in current assets and current liabilities		
Counterparty collateral	65	(195)
Other	(50)	5
Defined benefit plans - funding	(208)	(438)
Other operating activities	(7)	17
Net cash provided by operating activities	728	196
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(682)	(428)
Proceeds from the sale of certain non-core generation facilities		381
Purchases of nuclear plant decommissioning trust investments	(38)	(79)
Proceeds from the sale of nuclear plant decommissioning trust investments	34	75
Proceeds from the sale of other investments	16	163
Net (increase) decrease in restricted cash and cash equivalents	(22)	(7)
Other investing activities	(19)	(7)
Net cash provided by (used in) investing activities	(711)	98
Cash Flows from Financing Activities		
Issuance of common stock	16	16
Payment of common stock dividends	(203)	(170)
Net increase (decrease) in short-term debt	93	187
Other financing activities	(30)	(20)
Net cash provided by (used in) financing activities	(124)	13
Effect of Exchange Rates on Cash and Cash Equivalents	8	13
Net Increase (Decrease) in Cash and Cash Equivalents	(99)	320
Cash and Cash Equivalents at Beginning of Period	1,202	925
Cash and Cash Equivalents at End of Period	$ 1,103	$ 1,245

(a) The cash flows for 2012 are not comparable with 2011 due to the April 2011 acquisition of WPD Midlands.

Key Indicators (Unaudited)

Financial	12 Months Ended March 31, 2012	2011
Dividends declared per share	$ 1.41	$ 1.40
Book value per share (a)	$ 19.44	$ 17.60
Market price per share (a)	$ 28.26	$ 25.30
Dividend yield (a)	5.0%	5.5%
Dividend payout ratio (b)	50%	59%
Dividend payout ratio - earnings from ongoing operations (b)(c)	54%	46%
Price/earnings ratio (a)(b)	10.0	10.7
Price/earnings ratio - earnings from ongoing operations (a)(b)(c)	10.8	8.3
Return on average common equity	15.35%	14.10%
Return on average common equity - earnings from ongoing operations (c)	14.19%	18.24%

(a) End of period.
(b) Based on diluted earnings per share.
(c) Calculated using earnings from ongoing operations, which excludes the impact of special items, as described in the text and tables of this news release.

Operating - Domestic & International Electricity Sales (Unaudited)

(GWh)	3 Months Ended March 31, 2012	2011	Percent Change
Domestic Retail Delivered (a)			
PPL Electric Utilities	9,761	10,473	(6.8%)
LKE	7,505	7,932	(5.4%)
Total	17,266	18,405	(6.2%)
Domestic Retail Supplied (b)			
PPL EnergyPlus	2,702	1,945	38.9%
LKE	7,505	7,932	(5.4%)
Total	10,207	9,877	3.3%
International Delivered			
United Kingdom (c)	21,423	7,546	183.9%
Domestic Wholesale			
PPL EnergyPlus - East	12,418	14,125	(12.1%)
PPL EnergyPlus - West	1,918	2,508	(23.5%)
LKE (d)	589	949	(37.9%)
Total	14,925	17,582	(15.1%)

(a) Represents GWh delivered and billed to retail customers.
(b) Represents GWh supplied by PPL EnergyPlus to PPL Electric Utilities as PLR, and to other retail customers in Pennsylvania, New Jersey, Montana and Maryland. Also includes GWh supplied by LKE to retail customers in Kentucky, Virginia and Tennessee.
(c) 2012 includes 14,303 GWh delivered by WPD Midlands, whereas no amounts are included for the 2011 period as the acquisition occurred April 1, 2011. Sales volumes for WPD operations are reported on a one-month lag.
(d) Represents FERC regulated municipal and unregulated off-system sales.

Reconciliation of Segment Earnings from Ongoing Operations to Reported Earnings
(After Tax)
(Unaudited)

1st Quarter 2012	(millions of dollars)				
	Kentucky Regulated	U.K. Regulated	Pennsylvania Regulated	Supply	Total
Earnings from Ongoing Operations	$ 38	$ 183	$ 33	$ 155	$ 409
Special Items:					
Adjusted energy-related economic activity, net				150	150
Foreign currency-related economic hedges		(14)			(14)
Impairments:					
Adjustments - nuclear decommissioning trust investments				1	1
Acquisition-related adjustments:					
WPD Midlands separation benefits		(4)			(4)
LKE net operating loss carryforward and other tax related adjustments	4				4
Other:					
Counterparty bankruptcy				(6)	(6)
Ash basin leak remediation adjustment				1	1
Total Special Items	4	(18)		146	132
Reported Earnings	$ 42	$ 165	$ 33	$ 301	$ 541

	(per share - diluted)				
	Kentucky Regulated	U.K. Regulated	Pennsylvania Regulated	Supply	Total
Earnings from Ongoing Operations	$ 0.06	$ 0.31	$ 0.06	$ 0.27	$ 0.70
Special Items:					
Adjusted energy-related economic activity, net				0.26	0.26
Foreign currency-related economic hedges		(0.02)			(0.02)
Acquisition-related adjustments:					
WPD Midlands separation benefits		(0.01)			(0.01)
LKE net operating loss carryforward and other tax related adjustments	0.01				0.01
Other:					
Counterparty bankruptcy				(0.01)	(0.01)
Total Special Items	0.01	(0.03)		0.25	0.23
Reported Earnings	$ 0.07	$ 0.28	$ 0.06	$ 0.52	$ 0.93

Reconciliation of Segment Earnings from Ongoing Operations to Reported Earnings
(After Tax)
(Unaudited)

1st Quarter 2011	(millions of dollars)				
	Kentucky Regulated	U.K. Regulated	Pennsylvania Regulated	Supply	Total
Earnings from Ongoing Operations	$ 75	$ 75	$ 52	$ 205	$ 407
Special Items:					
Adjusted energy-related economic activity, net				17	17
Foreign currency-related economic hedges		(1)			(1)
Impairments:					
Emission allowances				(1)	(1)
Renewable energy credits				(2)	(2)
Adjustments - nuclear decommissioning trust investments				1	1
Acquisition-related adjustments:					
WPD Midlands:					
2011 Bridge Facility costs		(5)			(5)
Foreign currency loss on 2011 Bridge Facility		(4)			(4)
Other acquisition-related costs		(10)			(10)
LKE:					
Sale of certain non-core generation facilities				(1)	(1)
Total Special Items		(20)		14	(6)
Reported Earnings	$ 75	$ 55	$ 52	$ 219	$ 401

	(per share - diluted)				
	Kentucky Regulated	U.K. Regulated	Pennsylvania Regulated	Supply	Total
Earnings from Ongoing Operations	$ 0.15	$ 0.16	$ 0.11	$ 0.42	$ 0.84
Special Items:					
Adjusted energy-related economic activity, net				0.03	0.03
Acquisition-related adjustments:					
WPD Midlands:					
2011 Bridge Facility costs		(0.02)			(0.02)
Foreign currency loss on 2011 Bridge Facility		(0.01)			(0.01)
Other acquisition-related costs		(0.02)			(0.02)
Total Special Items		(0.05)		0.03	(0.02)
Reported Earnings	$ 0.15	$ 0.11	$ 0.11	$ 0.45	$ 0.82

Exhibit 99.2

1 st Quarter Earnings Call

PPL Corporation
May 4, 2012



Cautionary Statements and Factors That May Affect Future Results

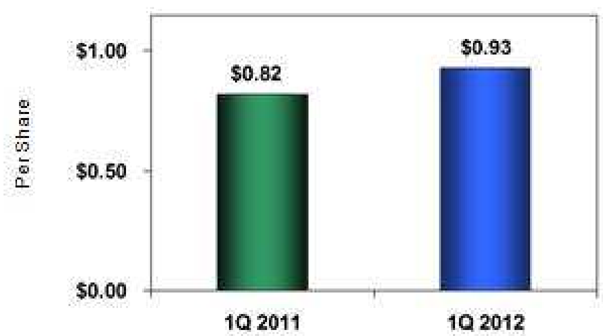
Any statements made in this presentation about future operating results or other future events are forward-looking statements under the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from such forward-looking statements. A discussion of factors that could cause actual results or events to vary is contained in the Appendix to this presentation and in the Company's SEC filings.

Agenda

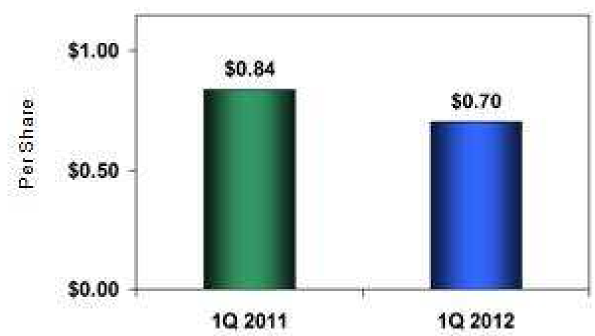
First Quarter Earnings Results, Operational Overview and 2012 Earnings Forecast	W. H. Spence
Segment Results and Financial Overview	P. A. Farr
Q&A	

First Quarter Earnings Results

First Quarter
Reported Earnings

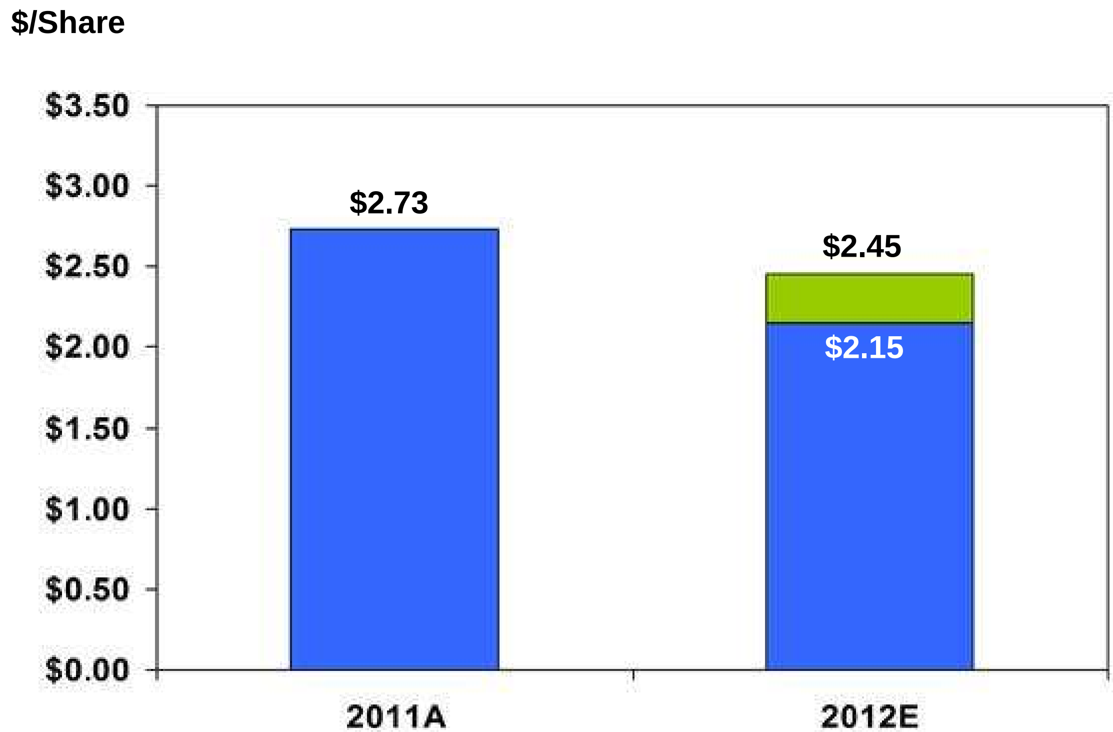


First Quarter
Earnings from Ongoing Operations



Note: See Appendix for the reconciliation of earnings from ongoing operations to reported earnings.

Reaffirmed 2012 Ongoing Earnings Forecast



Note: See Appendix for the reconciliation of earnings from ongoing operations to reported earnings.

Operational Overview

- Midlands integration achieving operational improvements and synergy savings
- Susquehanna-Roseland transmission line preferred route selected by National Park Service
  - Final approval expected in October 2012
- Ironwood acquisition completed
- Susquehanna turbine blade update
- PPL Electric Utilities filed distribution rate case

PPL Electric Utilities Distribution Rate Case Facts

Distribution Revenue Increase Requested	$104.6 million
Test Year	2012
Requested ROE	11.25%
2012 Distribution Rate Base	$2.42 billion
2012 Common Equity Ratio	51.03%
1% Change in ROE =	~$23 million in revenue
Docket No.	R-2012-2290597

Complete filing available at www.pplelectric.com/rateinfo

Ongoing Earnings Overview

	Q1 2012	Q1 2011	Change
Kentucky Regulated	$0.06	$0.15	($0.09)
U.K. Regulated	0.31	0.16	0.15
Pennsylvania Regulated	0.06	0.11	(0.05)
Supply	0.27	0.42	(0.15)
Total	$0.70	$0.84	($0.14)

Note: See Appendix for the reconciliation of earnings from ongoing operations to reported earnings.

Kentucky Regulated Segment Earnings Drivers

		1st Quarter
2011 EPS - Ongoing Earnings		$0.15
Electric Delivery Margins	(0.04)	
O&M	(0.03)	
Depreciation	(0.01)	
Dilution	(0.01)	
Total		(0.09)
2012 EPS - Ongoing Earnings		$0.06

Note: See Appendix for the reconciliation of earnings from ongoing operations to reported earnings.

U.K. Regulated Segment Earnings Drivers

		1st Quarter
2011 EPS - Ongoing Earnings		$0.16
Midlands (1)	0.24	
Delivery revenue	0.02	
O&M	(0.03)	
Income taxes & other	(0.02)	
Dilution	(0.06)	
Total		0.15
2012 EPS - Ongoing Earnings		$0.31

Note: See Appendix for the reconciliation of earnings from ongoing operations to reported earnings.
(1) Includes interest expense from the 2011 equity units.

Pennsylvania Regulated Segment Earnings Drivers

		1st Quarter
2011 EPS - Ongoing Earnings		$0.11
Electric Delivery Margins	(0.02)	
O&M	(0.01)	
Depreciation	(0.01)	
Dilution	(0.01)	
Total		(0.05)
2012 EPS - Ongoing Earnings		$0.06

Note: See Appendix for the reconciliation of earnings from ongoing operations to reported earnings.

Supply Segment Earnings Drivers

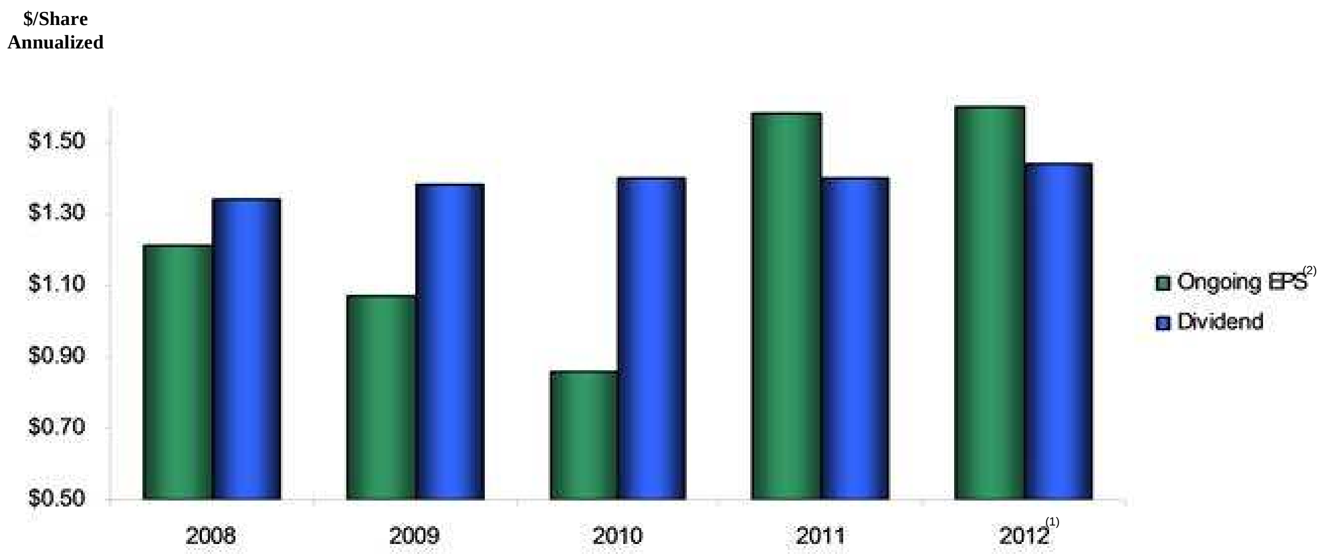
		1st Quarter
2011 EPS - Ongoing Earnings		$0.42
Margins	(0.10)	
O&M	(0.01)	
Income taxes & other	0.02	
Dilution	(0.06)	
Total		(0.15)
2012 EPS - Ongoing Earnings		$0.27

Note: See Appendix for the reconciliation of earnings from ongoing operations to reported earnings.

Appendix

Dividend Profile

A significantly more rate-regulated business mix provides strong support for current dividend and a platform for future growth



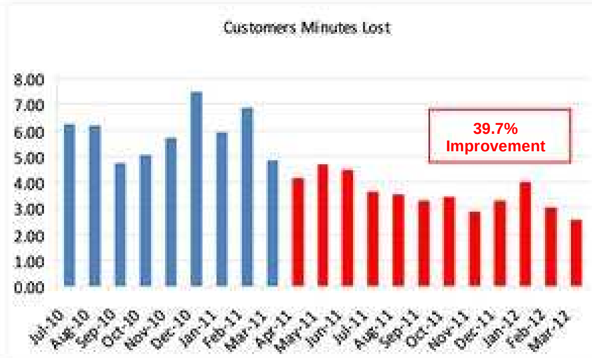
(1) Ongoing EPS based on mid-point of forecast. Annualized dividend based on 1 st quarter declaration. Actual dividends to be determined by Board of Directors.

(2) From only regulated segments.

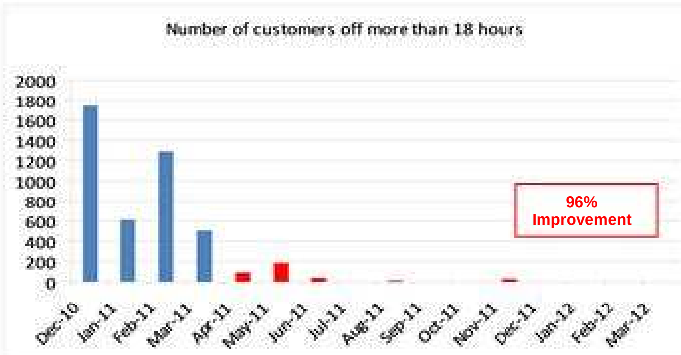
Midlands Integration - Improved Network Performance

Target 60

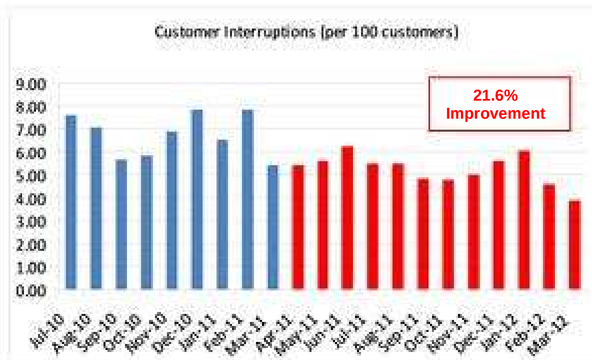
Customer Minutes Lost



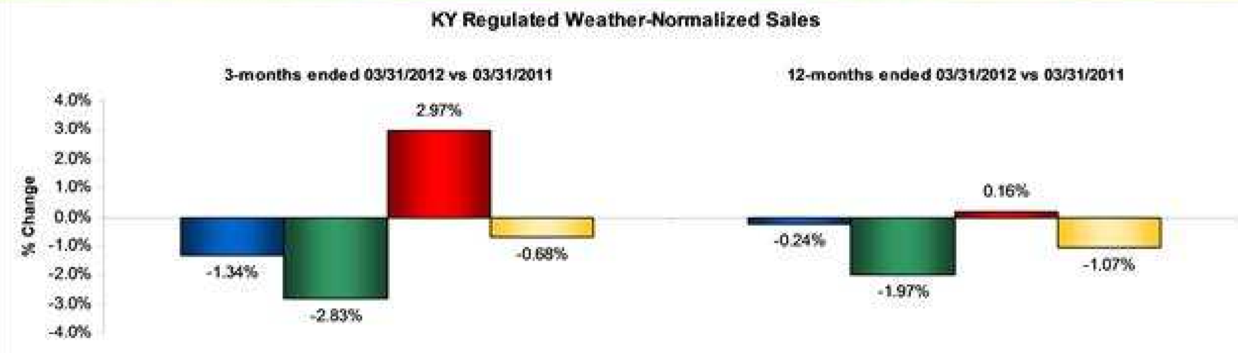
18 Hour Standard



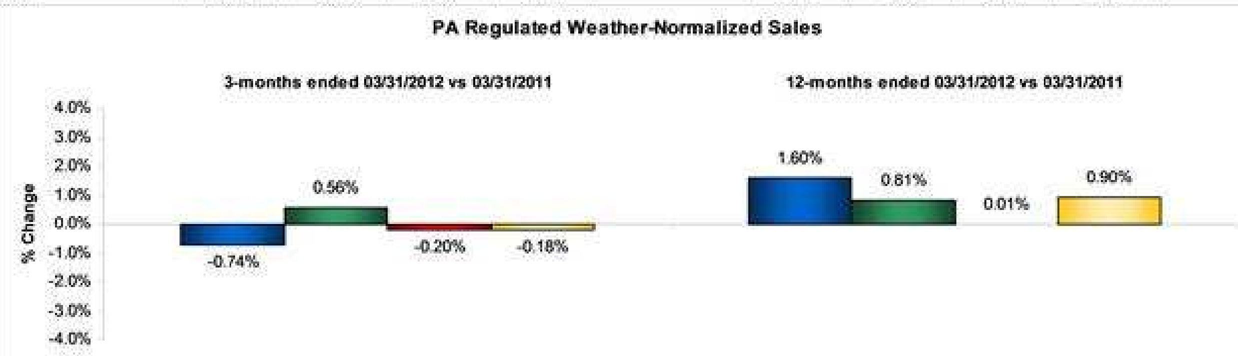
Customer Interruptions (per 100 customers)



Regulated Volume Variances



	Residential	Commercial	Industrial	Total		Residential	Commercial	Industrial	Total	
Weather-Normalized (charted)	-1.34%	-2.83%	2.97%	-0.68%		-0.24%	-1.97%	0.16%	-1.07%	
Actual	-12.03%	-5.70%	2.92%	-5.38%		-8.60%	-4.62%	-0.20%	-4.79%	



	Residential	Commercial	Industrial	Total		Residential	Commercial	Industrial	Total	
Weather-Normalized (charted)	-0.74%	0.56%	-0.20%	-0.18%		1.60%	0.81%	0.01%	0.90%	
Actual	-11.89%	-3.96%	-0.20%	-6.80%		-3.50%	-0.78%	0.01%	-1.66%	

Note: Total includes Residential, Commercial and Industrial customer classes as well as “Other”, which is not depicted on the charts above.

Enhancing Value Through Active Hedging

	2012	2013
Baseload		
Expected Generation [1] (Million MWhs)	**51.5**	**53.1**
East	43.5	44.8
West	8.0	8.3
Current Hedges (%)	**94-98%**	**79-83%**
East	96-100%	82-86%
West	82-86%	65-69%
Average Hedged Price (Energy Only) ($/MWh) [2] [3]		
East	$54-55	$49-51
West	$50-52	$46-49
Current Coal Hedges (%)	**100%**	**97%**
East	100%	96%
West	100%	100%
Average Hedged Consumed Coal Price (Delivered $/Ton)		
East	$76-79	$80-88
West	$23-28	$23-29
Intermediate/Peaking		
Expected Generation [1] (Million MWhs)	7.6	7.0
Current Hedges (%)	58%	6%

Capacity revenues are expected to be $385 million and $590 million for 2012 and 2013, respectively.

As of March 31, 2012

(1) Represents expected sales of Supply segment based on current business plan assumptions.
(2) The 2012 average hedge energy prices are based on the fixed price swaps as of March 31, 2012; the prior collars have all been converted to fixed swaps.
(3) The 2013 ranges of average energy prices for existing hedges were estimated by determining the impact on the existing collars resulting from 2013 power prices at the 5th and 95th percentile confidence levels.

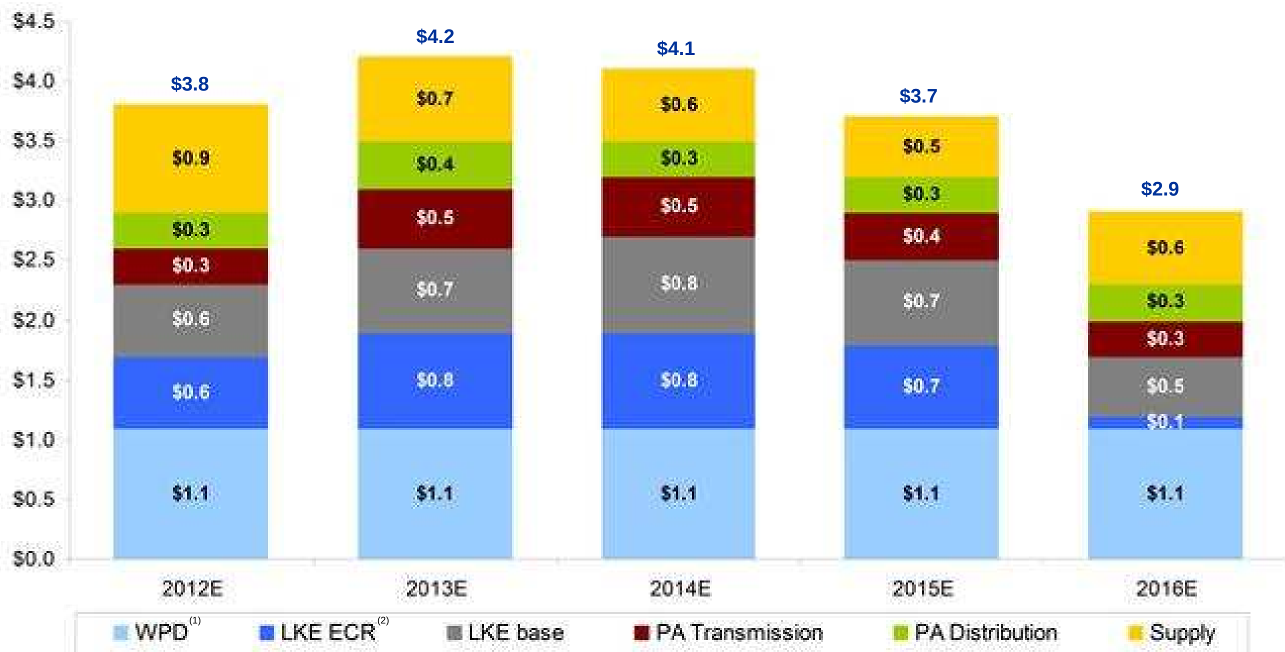
Market Prices

	Balance of 2012	2013
ELECTRIC		
PJM		
On-Peak	$39	$44
Off-Peak	$27	$32
ATC(1)	$32	$37
Mid-Columbia		
On-Peak	$23	$31
Off-Peak	$14	$23
ATC(1)	$19	$27
GAS(2)		
NYMEX	$2.50	$3.47
TZ6NNY	$2.71	$3.76
PJM MARKET		
HEAT RATE(3)	14.2	11.7
CAPACITY PRICES *(Per MWD)*	$123.63	$187.49
EQA	87%	90%

(1) 24-hour average.
(2) NYMEX and TZ6NNY forward gas prices on 3/30/2012.
(3) Market Heat Rate = PJM on-peak power price divided by TZ6NNY gas price.

Capital Expenditures

($ in billions)

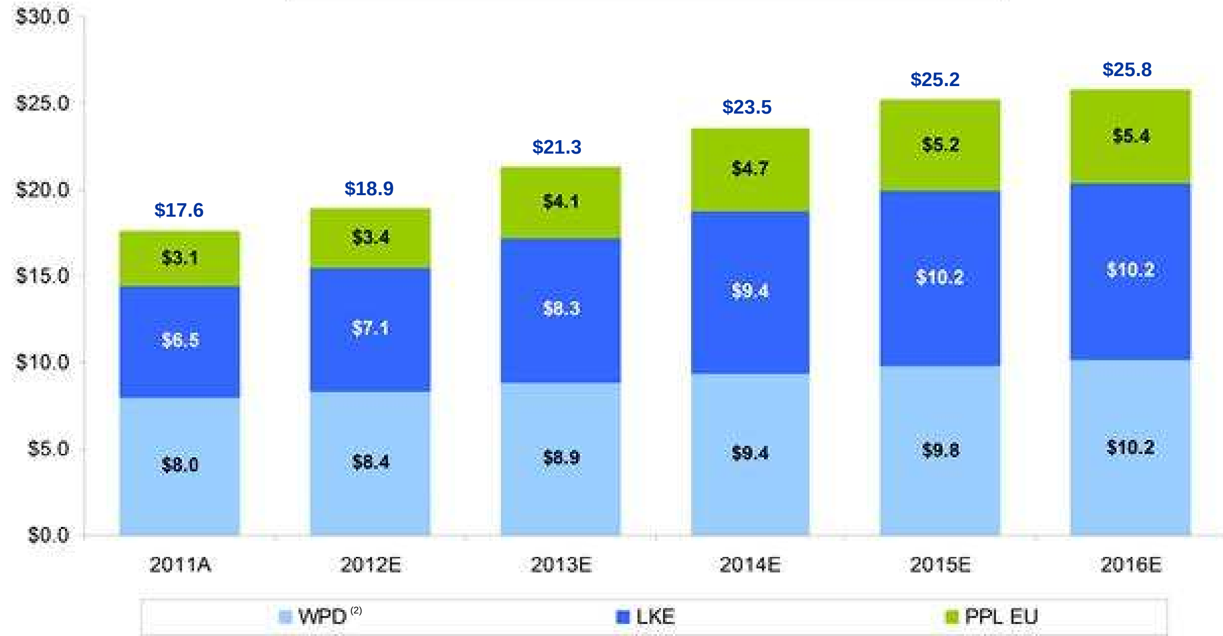


(1) Includes capex for WPD Midlands. Figures based on assumed exchange rate of $1.57 / GBP.
(2) Expect between 80% and 90% to receive timely returns via ECR mechanism based on historical experience and future projections.

Projected Regulated Rate Base Growth

2012E - 2016E Regulatory Asset Base (1) CAGR: 7.9%

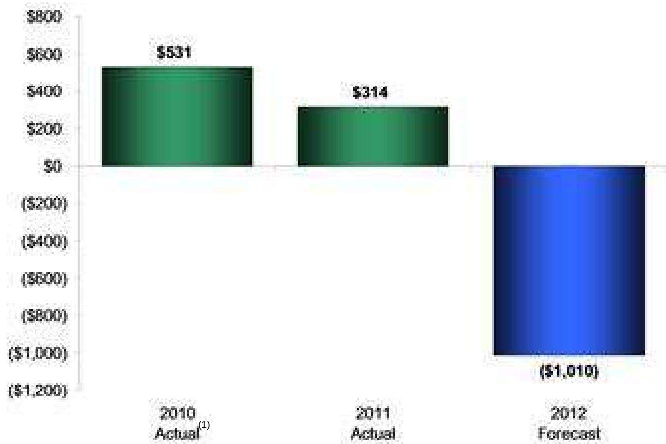
($ in billions)



(1) Represents capitalization for LKE, as LG&E and KU rate constructs are based on capitalization. Represents Regulatory Asset Value (RAV) for WPD.
(2) Includes RAV for WPD Midlands. Figures based on assumed exchange rate of $1.57 / GBP and are as of year-end December 31.

Free Cash Flow before Dividends

Free Cash Flow before Dividends
(Millions of Dollars)



Reconciliation of Cash from Operations to Free Cash Flow before Dividends
(Millions of dollars)

	2010A	2011A	2012E
Cash from Operations	$ 2,034	$ 2,507	$ 2,800
Increase (Decrease) in cash due to:			
Capital Expenditures	(1,644)	(2,555)	(3,840)
Sale of Assets	161	381	
Other Investing Activities - Net	(20)	(19)	30
Free Cash Flow before Dividends	$ 531	$ 314	$ (1,010)

(1) 2010 Free Cash Flow includes two months of the results of the Kentucky Regulated segment.

Debt Maturities

	2012	2013	2014	2015	2016
PPL Capital Funding	$0	$0 (1)	$0 (2)	$0	$0
LG&E and KU Energy (Holding Co LKE)	0	0	0	400	0
Louisville Gas & Electric	0	0	0	250	0
Kentucky Utilities	0	0	0	250	0
PPL Electric Utilities	0	0	10 (3)	100	0
PPL Energy Supply	0	737	300	300 (4)	350
WPD	0	0	0	0	460
Total	$0	$737	$310	$1,300	$810

(Millions)

Note: As of March 31, 2012

(1) Excludes $1.15 billion of junior subordinated notes due 2018 that are a component of PPL's 2010 Equity Units and may be put back to PPL Capital Funding if the remarketing in 2013 is not successful.

(2) Excludes $978 million of junior subordinated notes due 2019 that are a component of PPL's 2011 Equity Units and may be put back to PPL Capital Funding if the remarketing in 2014 is not successful.

(3) Bonds defeased in substance in 2008 by depositing sufficient funds with the trustee.

(4) Represents REset Put Securities due 2035 that are required to be put by the holders in October 2015 either for (a) purchase and remarketing by a remarketing dealer or (b) repurchase by PPL Energy Supply.

Liquidity Profile

Institution	Facility	Expiration Date	Total Facility (Millions)	Letters of Credit Outstanding & Commercial Paper Backstop (Millions)	Drawn (Millions)	Availability (Millions)
PPL Energy Supply	Syndicated Credit Facility	Oct-2016	$3,000	$634	$0	$2,366
	Letter of Credit Facility	Mar-2013	200	144	0	56
			$3,200	$778	$0	$2,422
PPL Electric Utilities	Syndicated Credit Facility(1)	Oct-2016	$200	$1	$0	$199
	Asset-backed Credit Facility	Jul-2012	150	0	0	150
			$350	$1	$0	$349
Louisville Gas & Electric	Syndicated Credit Facility	Oct-2016	$400	$0	$0	$400
Kentucky Utilities	Syndicated Credit Facility	Oct-2016	$400	$0	$0	$400
	Letter of Credit Facility	Apr-2014	198	198	0	0
			$598	$198	$0	$400
WPD	PPL WW Syndicated Credit Facility	Jan-2013	£150	£0	£110	£40
	WPD (South West) Syndicated Credit Facility	Jan-2017	245	0	0	245
	WPD (East Midlands) Syndicated Credit Facility	Apr-2016	300	70	0	230
	WPD (West Midlands) Syndicated Credit Facility	Apr-2016	300	71	0	229
	Uncommitted Credit Facilities		73	3	0	70
			£1,068	£144	£110	£814

Note: As of March 31, 2012

- Credit facilities consist of a diverse bank group, with no bank and its affiliates providing an aggregate commitment of more than 9% of the total committed capacity for the domestic facilities and 17% of the total committed capacity for WPD's facilities.

(1) In April 2012, PPL Electric Utilities increased the capacity of its syndicated credit facility from $200 million to $300 million.

Reconciliation of First Quarter Earnings from Ongoing Operations to Reported Earnings

(Millions of Dollars, After-Tax)

Quarter Ending March 31, 2012	Kentucky Regulated	U.K. Regulated	Pennsylvania Regulated	Supply	Total
Earnings from Ongoing Operations	$ 38	$ 183	$ 33	$ 155	$ 409
Special Items:					
Adjusted energy-related economic activity, net				150	150
Foreign currency-related economic hedges		(14)			(14)
Impairments:					
Adjustments - nuclear decommissioning trust investments				1	1
Acquisition-related adjusments:					
WPD Midlands separation benefits		(4)			(4)
LKE net operating loss carryforward and other tax related adjustments	4				4
Other:					
Counterparty bankruptcy				(6)	(6)
Ash basin leak remediation adjustment				1	1
Total Special Items	4	(18)		146	132
Reported Earnings*	$ 42	$ 165	$ 33	$ 301	$ 541

Quarter Ending March 31, 2011	Kentucky Regulated	U.K. Regulated	Pennsylvania Regulated	Supply	Total
Earnings from Ongoing Operations	$ 75	$ 75	$ 52	$ 205	$ 407
Special Items:					
Adjusted energy-related economic activity, net				17	17
Foreign currency-related economic hedges		(1)			(1)
Impairments:					
Emission allowances				(1)	(1)
Renewable energy credits				(2)	(2)
Adjustments - nuclear decommissioning trust investments				1	1
Acquisition-related adjustments:					
WPD Midlands:					
2011 Bridge Facility costs		(5)			(5)
Foreign currency loss on 2011 Bridge Facility		(4)			(4)
Other acquisition-related costs		(10)			(10)
LKE:					
Sale of certain non-core generation facilities				(1)	(1)
Total Special Items		(20)		14	(6)
Reported Earnings*	$ 75	$ 55	$ 52	$ 219	$ 401

* Represents net income attributable to PPL Corporation

Reconciliation of First Quarter Earnings from Ongoing Operations to Reported Earnings

(Per Share - Diluted)

Quarter Ending March 31, 2012	Kentucky Regulated	U.K. Regulated	Pennsylvania Regulated	Supply	Total
Earnings from Ongoing Operations	$ 0.06	$ 0.31	$ 0.06	$ 0.27	$ 0.70
Special Items:					
Adjusted energy-related economic activity, net				0.26	0.26
Foreign currency-related economic hedges		(0.02)			(0.02)
Acquisition-related adjustments:					
WPD Midlands separation benefits		(0.01)			(0.01)
LKE net operating loss carryforward and other tax related adjustments	0.01				0.01
Other:					
Counterparty bankruptcy				(0.01)	(0.01)
Total Special Items	0.01	(0.03)		0.25	0.23
Reported Earnings	$ 0.07	$ 0.28	$ 0.06	$ 0.52	$ 0.93

Quarter Ending March 31, 2011	Kentucky Regulated	U.K. Regulated	Pennsylvania Regulated	Supply	Total
Earnings from Ongoing Operations	$ 0.15	$ 0.16	$ 0.11	$ 0.42	$ 0.84
Special Items:					
Adjusted energy-related economic activity, net				0.03	0.03
Acquisition-related adjustments:					
WPD Midlands:					
2011 Bridge Facility costs		(0.02)			(0.02)
Foreign currency loss on 2011 Bridge Facility		(0.01)			(0.01)
Other acquisition-related costs		(0.02)			(0.02)
Total Special Items		(0.05)		0.03	(0.02)
Reported Earnings	$ 0.15	$ 0.11	$ 0.11	$ 0.45	$ 0.82

Reconciliation of PPL's Earnings from Ongoing Operations to Reported Earnings

(Per Share - Diluted)

	Forecast		Actual	
	High 2012	Low 2012	2011	2010
Earnings from Ongoing Operations	$ 2.45	$ 2.15	$ 2.73	$ 3.13
Special Items:				
Adjusted energy-related economic activity, net	0.26	0.26	0.12	(0.27)
Foreign currency-related economic hedges	(0.02)	(0.02)	0.01	
Sales of assets:				
Maine hydroelectric generation business				0.03
Impairments:				
Emission allowances				(0.02)
Renewable energy credits			(0.01)	
Acquisition-related adjustments:				
WPD Midlands:				
2011 Bridge Facility costs			(0.05)	
Foreign currency loss on 2011 Bridge Facility			(0.07)	
Net hedge gains			0.07	
Hedge ineffectiveness			(0.02)	
U.K. stamp duty tax			(0.04)	
Separation benefits	(0.01)	(0.01)	(0.13)	
Other acquisition-related costs			(0.10)	
LKE:				
Monetization of certain full-requirement sales contracts				(0.29)
Sale of certain non-core generation facilities				(0.14)
Discontinued cash flow hedges and ineffectiveness				(0.06)
Reduction of credit facility				(0.01)
2010 Bridge Facility costs				(0.12)
Other acquisition-related costs				(0.05)
Net operating loss carryforward and other tax related adjustments	0.01	0.01		
Other:				
Montana hydroelectric litigation			0.08	(0.08)
Health care reform - tax impact				(0.02)
Litigation settlement - spent nuclear fuel storage			0.06	
Change in U.K. tax rate			0.12	0.04
Windfall profits tax litigation			(0.07)	0.03
Counterparty bankruptcy	(0.01)	(0.01)	(0.01)	
Wholesale supply cost reimbursement			0.01	
Total Special Items	0.23	0.23	(0.03)	(0.96)
Reported Earnings	$ 2.68	$ 2.38	$ 2.70	$ 2.17

Gross Margins Summary

(Millions of Dollars)	Three Months Ended March 31,			
	2012	2011	Change	Per Share Diluted (after-tax) (a)
KY Gross Margins	$ 383	$ 411	$ (28)	$ (0.04)
PA Gross Delivery Margins by Component				
Distribution	$ 189	$ 208	$ (19)	$ (0.02)
Transmission	48	42	6	-
Total	$ 237	$ 250	$ (13)	$ (0.02)
Unregulated Gross Energy Margins by Region				
Non-trading				
Eastern U.S.	$ 489	$ 578	$ (89)	$ (0.10)
Western U.S.	87	82	5	-
Net energy trading	8	11	(3)	-
Total	$ 584	$ 671	$ (87)	$ (0.10)

(a) Excludes dilution which is primarily associated with the April 2011 issuance of common stock.

Reconciliation of First Quarter Operating Income to Margins

(Millions of Dollars)	Three Months Ended March 31, 2012					Three Months Ended March 31, 2011				
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other	Operating Income	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other	Operating Income
Operating Revenues										
Utility	$ 705	$ 457		$ 552	$ 1,714	$ 766	$ 554		$ 216	$ 1,536
PLR intersegment utility revenue (expense)		(21)	$ 21				(6)	$ 6		
Unregulated retail electric and gas			214	9	223			143	4	147
Wholesale energy marketing										
Realized			1,204	4	1,208			1,022	16	1,038
Unrealized economic activity				852	852				57	57
Net energy trading margins			8		8			11		11
Energy-related businesses				107	107				121	121
Total Operating Revenues	705	436	1,447	1,524	4,112	766	548	1,182	414	2,910
Operating Expenses										
Fuel	213		214	(3)	424	215		284	(24)	475
Energy purchases										
Realized	74	153	636	20	883	107	251	227	86	671
Unrealized economic activity				591	591				(18)	(18)
Other operation and maintenance	22	22	4	658	706	21	18	4	540	583
Depreciation	13			251	264	12			196	208
Taxes, other than income		25	8	58	91		33	7	33	73
Energy-related businesses				102	102				113	113
Intercompany eliminations		(1)	1				(4)	1	3	
Total Operating Expenses	322	199	863	1,677	3,061	355	298	523	929	2,105
Discontinued operations								12	(12) (a)	
Total	$ 383	$ 237	$ 584	$ (153)	$ 1,051	$ 411	$ 250	$ 671	$ (527)	$ 805

(a) Represents the net amount of certain revenues and expenses associated with certain businesses that are classified as discontinued operations. These revenues and expenses are not reflected in "Operating Income" on the Statement of Income.

Forward-Looking Information Statement

Statements contained in this presentation, including statements with respect to future earnings, cash flows, financing, regulation and corporate strategy are "forward-looking statements" within the meaning of the federal securities laws. Although PPL Corporation believes that the expectations and assumptions reflected in these forward-looking statements are reasonable, these statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: market demand and prices for energy, capacity and fuel; weather conditions affecting customer energy usage and operating costs; competition in power markets; the effect of any business or industry restructuring; the profitability and liquidity of PPL Corporation, its subsidiaries and customers; new accounting requirements or new interpretations or applications of existing requirements; operating performance of plants and other facilities; the length of scheduled and unscheduled outages at our generating plants; environmental conditions and requirements and the related costs of compliance, including environmental capital expenditures and emission allowance and other expenses; system conditions and operating costs; development of new projects, markets and technologies; performance of new ventures; asset or business acquisitions and dispositions, and PPL Corporation's ability to realize the expected benefits from acquired businesses, including the 2010 acquisition of Louisville Gas and Electric Company and Kentucky Utilities Company and the 2011 acquisition of the Central Networks electricity distribution businesses in the U.K.; any impact of hurricanes or other severe weather on our business, including any impact on fuel prices; receipt of necessary government permits, approvals, rate relief and regulatory cost recovery; capital market conditions and decisions regarding capital structure; the impact of state, federal or foreign investigations applicable to PPL Corporation and its subsidiaries; the outcome of litigation against PPL Corporation and its subsidiaries; stock price performance; the market prices of equity securities and the impact on pension income and resultant cash funding requirements for defined benefit pension plans; the securities and credit ratings of PPL Corporation and its subsidiaries; political, regulatory or economic conditions in states, regions or countries where PPL Corporation or its subsidiaries conduct business, including any potential effects of threatened or actual terrorism or war or other hostilities; foreign exchange rates; new state, federal or foreign legislation, including new tax legislation; and the commitments and liabilities of PPL Corporation and its subsidiaries. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PPL Corporation's Form 10-K and other reports on file with the Securities and Exchange Commission.

Definitions of Non-GAAP Financial Measures

"Earnings from ongoing operations" should not be considered as an alternative to reported earnings, or net income attributable to PPL, which is an indicator of operating performance determined in accordance with generally accepted accounting principles (GAAP). PPL believes that "earnings from ongoing operations," although a non-GAAP financial measure, is also useful and meaningful to investors because it provides management's view of PPL's fundamental earnings performance as another criterion in making investment decisions. PPL's management also uses "earnings from ongoing operations" in measuring certain corporate performance goals. Other companies may use different measures to present financial performance.

"Earnings from ongoing operations" is adjusted for the impact of special items. Special items include:

- *Adjusted energy-related economic activity (as discussed below).*
- *Foreign currency-related economic hedges.*
- *Gains and losses on sales of assets not in the ordinary course of business.*
- *Impairment charges (including impairments of securities in the company's nuclear decommissioning trust funds).*
- *Workforce reduction and other restructuring impacts.*
- *Acquisition-related adjustments.*
- *Other charges or credits that are, in management's view, not reflective of the company's ongoing operations.*

Adjusted energy-related economic activity includes the changes in fair value of positions used economically to hedge a portion of the economic value of PPL's generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Also included in energy-related economic activity is the ineffective portion of qualifying cash flow hedges, the monetization of certain full-requirement sales contracts and premium amortization associated with options. This economic activity is deferred, with the exception of the full-requirement sales contracts that were monetized, and included in earnings from ongoing operations over the delivery period of the item that was hedged or upon realization. Management believes that adjusting for such amounts provides a better matching of earnings from ongoing operations to the actual amounts settled for PPL's underlying hedged assets. Please refer to the Notes to the Financial Statements and MD&A in PPL Corporation's periodic filings with the Securities and Exchange Commission for additional information on energy-related economic activity.

Free cash flow before dividends is derived by deducting capital expenditures and other investing activities-net, from cash flow from operations. Free cash flow before dividends should not be considered as an alternative to cash flow from operations, which is determined in accordance with GAAP. PPL believes that free cash flow before dividends, although a non-GAAP measure, is an important measure to both management and investors, as it is an indicator of the company's ability to sustain operations and growth without additional outside financing beyond the requirement to fund maturing debt obligations. Other companies may calculate free cash flow before dividends in a different manner.

Definitions of Non-GAAP Financial Measures

"Kentucky Gross Margins" is a single financial performance measure of the Kentucky Regulated segment's electricity generation, transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expense and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. These mechanisms allow for recovery of certain expenses, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from the Kentucky Regulated segment's operations.

"Pennsylvania Gross Delivery Margins" is a single financial performance measure of the Pennsylvania Regulated segment's electric delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance-" expense, which is primarily Act 129 costs, and in "Taxes, other than income," which is primarily gross receipts tax. These mechanisms allow for recovery of certain expenses; therefore, certain expenses and revenues offset with minimal impact on earnings. This performance measure includes PLR energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "PLR intersegment utility revenue (expense)." As a result, this measure represents the net revenues from the Pennsylvania Regulated segment's electric delivery operations.

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

Contacts: For news media - Chris Whelan, 502-627-4999
For financial analysts - Joe Bergstein, 610-774-5609

KPSC Approves New Natural Gas Generation at LG&E and KU
Project Expected to Begin This Year; 250 Construction Jobs Anticipated At Peak

LOUISVILLE, Ky. (May 3, 2012) – The Kentucky Public Service Commission today approved plans for Louisville Gas and Electric Company and Kentucky Utilities Company to build and buy new natural gas generation to meet the energy needs of their customers.

As a result of stricter federal Environmental Protection Agency regulations, several of the utilities' older, coal-fired units — representing more than 13 percent of the utilities' coal fleet — must be retired by 2016.

Today's ruling is a key milestone in the process. Subject to receipt of other permits, LG&E and KU plan to build the 640-megawatt, natural gas combined-cycle (NGCC), generating unit at the existing Cane Run site in southwestern Louisville.

The ruling also moves the utilities a step closer to the purchase of three additional simple-cycle natural gas combustion turbines from Bluegrass Generation Company located in LaGrange. The purchase of the Bluegrass units, which will provide up to 495 megawatts of peak generation supply, is still subject to Federal Energy Regulatory Commission approval.

"With this regulatory approval, we can begin focusing on this significant investment in our system. We worked diligently to develop a least-cost solution to meet the federal regulatory mandates and we're pleased that the KPSC has approved the plan," said Lonnie Bellar, vice president of State Regulation and Rates for LG&E and KU.

The NGCC is expected to cost approximately $583 million and the Bluegrass plant is expected to cost approximately $110 million. Recovery of the additional costs is not part of today's ruling, but will be included in future rate proceedings.

Cane Run and Green River coal units will need to remain operational until the replacement generation and associated transmission projects are completed. Construction of the NGCC is expected to begin this year and be complete in 2015. At the peak of the construction phase, approximately 250 jobs are expected to be created.

Louisville Gas and Electric Company and Kentucky Utilities Company, part of the PPL Corporation (NYSE: PPL) family of companies, are regulated utilities that serve a total of 1.2 million customers and have consistently ranked among the best companies for customer service in the United States. LG&E serves 321,000 natural gas and 397,000 electric customers in Louisville and 16 surrounding counties. Kentucky Utilities serves 546,000 customers in 77 Kentucky counties and five counties in Virginia. More information is available at www.lge-ku.com and www.pplweb.com .

Certain statements contained in this news release, including statements with respect to future earnings, cash flow and business conditions, are "forward-looking statements" within the meaning of the federal securities laws. Although PPL Corporation, Louisville Gas and Electric Company and Kentucky Utilities Company believe that the expectations and assumptions reflected in these forward-looking statements are reasonable, these statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: market demand and prices for energy, capacity and fuel; competition; accounting requirements; operating performance and costs of plants and other facilities; political, regulatory or economic developments and conditions; disposition proceeds; and regulatory approvals. Any such forward-looking statements should be considered in light of such factors and in conjunction with PPL Corporation's, Louisville Gas and Electric Compan'sy and Kentucky Utilities Company's Form 10-K's and other reports on file with the Securities and Exchange Commission.

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KENTUCKY UTILITIES CO

FORM 8-K
(Current report filing)

Filed 12/16/11 for the Period Ending 12/15/11

Address	ONE QUALITY ST LEXINGTON, KY 40507
Telephone	6062552100
CIK	0000055387
SIC Code	4911 - Electric Services
Fiscal Year	12/29

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 15, 2011

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
1-11459	**PPL Corporation** (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
333-173665	**LG&E and KU Energy LLC** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	**Louisville Gas and Electric Company** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	**Kentucky Utilities Company** (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

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

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 8 - Other Events

Item 8.01 Other Events

On December 15, 2011, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU" and, collectively with LG&E, the "Companies") received Kentucky Public Service Commission ("KPSC") approval in their proceedings before the KPSC relating to environmental cost recovery ("ECR") plans. The KPSC order approves the terms of the previously announced Settlement Agreement, dated November 9, 2011, entered into between the Companies and the parties to the current proceedings ("Settlement Agreement"). The KPSC order authorizes the installation of environmental upgrades at certain of the Companies' plants during 2012-2016 representing approximate capital costs of $1.4 billion at LG&E and $896 million at KU.

In connection with the approved projects, the KPSC order allows recovery through the ECR rate mechanism of the capital costs and operating expenses of the projects and grants Certificates of Public Convenience and Necessity for their construction. The KPSC order also confirms an existing 10.63% authorized return on equity for projects remaining from earlier ECR plans of the Companies and provides for an authorized return on equity of 10.10% for the approved projects in their 2011 ECR proceedings.

The KPSC order notes KU's consent in the Settlement Agreement to defer requested approval for certain environmental upgrades at its E.W. Brown plant, which represented an estimated $218 million in capital costs. KU retains the right to operate and dispatch the E.W. Brown plant in accordance with applicable environmental standards and the right to request approval of the deferred projects in future regulatory proceedings.

Under the terms of the KPSC order, the Companies will increase funding levels for certain heating assistance programs for low-income customers.

Statements in this report and the accompanying press release, including statements with respect to future events and their timing, including the proposed transactions contemplated in the Companies' regulatory filing, such as the new environmental facilities construction, the eventual operation of such facilities, the actual capital costs and operating expenses associated therewith and the rate recovery or returns on equity ultimately achieved, as well as other statements as to future costs or expenses, regulation, corporate strategy and performance, are "forward-looking statements" within the meaning of the federal securities laws. Although the Companies believe that the expectations and assumptions reflected in these forward-looking statements are reasonable, these expectations, assumptions and statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements:, receipt of any remaining necessary government permits, approvals, subsequent phases of rate relief and regulatory cost recovery; market demand and prices for electricity; political, regulatory or economic conditions in states, regions or countries where the Companies conduct business; and new state, federal or foreign legislation, including new tax or environmental legislation or regulation. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PPL Corporation's Form 10-K, each Company's respective Form S-4 registration statement and other reports on file with the Securities and Exchange Commission.

Section 9 - Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

99.1 - Press Release dated December 15, 2011 of Louisville Gas and Electric Company and Kentucky Utilities Company.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller

LG&E AND KU ENERGY LLC

By: /s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

KENTUCKY UTILITIES COMPANY

By: /s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

Dated: December 16, 2011

Contact:

Chris Whelan
T 502-627-4999
F 502-627-3629

December 15, 2011

KPSC Approves LG&E and KU ECR Settlement Agreement
$2.3 Billion in Upgrades Expected to Meet Stricter EPA Regulations

(LOUISVILLE, Ky.) – The Kentucky Public Service Commission today approved the unanimous settlement agreement in the environmental cost recovery case for Louisville Gas and Electric Company and Kentucky Utilities Company.

As approved by the KPSC, LG&E will invest $1.4 billion and KU will invest $896 million for a total of $2.3 billion in environmental upgrades to meet new, stricter Environmental Protection Agency regulations. As filed in the original application, LG&E will modernize the flue gas desulfurization systems, better known as scrubbers, at the Mill Creek generating station as well as install fabric-filter baghouse systems for increased particulate and mercury control on all units at Mill Creek and for Unit 1 at the Trimble County generating station. KU will install the same type of fabric-filter baghouse systems for increased particulate and mercury control on all units at the Ghent generating station and on unit 3 at the Brown generating station. Brown will also be converting its current coal ash pond to a dry storage landfill.

As part of the settlement agreement, units 1 and 2 at the Brown plant will continue to operate as they have been. The installation of the fabric filter baghouse system for particulate emission reductions on the Brown units 1 and 2 will be deferred two years until the EPA provides a clearer understanding of the requirements of the new National Ambient Air Standard rule for ozone that is due to be released in late 2012.

As part of the agreement, the companies also will provide an additional $500,000 in shareholder funds to the LG&E and KU Home Energy Assistance programs -- $250,000 in 2011 and the remaining $250,000 in 2012. The current HEA program will increase the current per meter charge from 15 to 16 cents.

“We are glad to have the commission’s approval on our environmental improvement plans. The parties to the case worked hard to reach the unanimous settlement agreement and, now, we can focus on the large scale projects we have ahead of us,” said Lonnie Bellar, vice president of state rates and regulatory.

(more)

The companies will continue to earn the existing 10.63 percent return on equity for projects remaining from earlier ECR plans and will earn 10.10 percent return on equity on projects in the 2011 ECR applications.

In addition to LG&E and KU, the settling parties were the Kentucky Attorney General, the Community Action Council, Kentucky Industrial Utility Customers, the Kroger Company, Lexington-Fayette Urban County Government, Metro Housing, the Sierra Club/National Resource Defense Council and the U.S. Department of Defense.

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Louisville Gas and Electric Company and Kentucky Utilities Company, part of the PPL Corporation (NYSE: PPL) family of companies, are regulated utilities that serve a total of 1.2 million customers and have consistently ranked among the best companies for customer service in the United States. LG&E serves 321,000 natural gas and 397,000 electric customers in Louisville and 16 surrounding counties. Kentucky Utilities serves 546,000 customers in 77 Kentucky counties and five counties in Virginia. More information is available at www.lge-ku.com and www.pplweb.com .

KENTUCKY UTILITIES CO

FORM 8-K
(Current report filing)

Filed 11/10/11 for the Period Ending 11/09/11

Address	ONE QUALITY ST LEXINGTON, KY 40507
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CIK	0000055387
SIC Code	4911 - Electric Services
Fiscal Year	12/29

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 9, 2011

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
1-11459	**PPL Corporation** (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
333-173665	**LG&E and KU Energy LLC** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	**Louisville Gas and Electric Company** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	**Kentucky Utilities Company** (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

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

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 1 – Registrants' Business and Operations

Item 1.01 Entry into a Material Definitive Agreement

On November 9, 2011, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU" and, collectively with LG&E, the "Companies") entered into a settlement agreement ("Settlement Agreement") with the intervenors in their proceedings ("Proceedings") commenced in June 2011 before the Kentucky Public Service Commission ("KPSC") relating to environmental cost recovery ("ECR") plans. The original applications sought approval to install environmental upgrades at certain of the Companies' plants during 2012-2016, including recovery through the ECR rates mechanism of approximate capital costs of $1.4 billion at LG&E and $1.1 billion at KU, plus operating expenses.

The Settlement Agreement provides that the parties will favorably recommend to the KPSC for approval, or not oppose, approximately $2.25 billion of the Companies' $2.5 billion in capital projects for which approval was originally requested, constituting approximately $1.4 billion and $850 million at LG&E and KU, respectively. Under the Settlement Agreement, the $250 million in remaining capital costs are deferred and may be the subject of future regulatory proceedings for approval to construct the deferred projects and recover the associated costs through the ECR rate mechanism. The deferred projects relate to certain proposed environmental upgrades at KU's E.W. Brown plant, for which plant KU retains the right to operate and dispatch in accordance with applicable environmental standards. The Settlement Agreement confirms an existing 10.63% authorized return on equity for projects remaining from earlier ECR plans of the Companies and provides for an authorized return on equity of 10.10% for projects in their 2011 ECR applications.

The Settlement Agreement also contains other provisions whereby the Companies will increase funding levels for certain heating assistance programs for low-income customers.

The settling parties have agreed to recommend, or in some cases to not challenge, the approval by the KPSC of the adjusted ECR applications. The Settlement Agreement remains subject to approval by the KPSC. An order with respect to the Proceedings is anticipated from the KPSC in December 2011.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller

LG&E AND KU ENERGY LLC

By: /s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

KENTUCKY UTILITIES COMPANY

By: /s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

Dated: November 10, 2011

KENTUCKY UTILITIES CO

FORM 8-K
(Current report filing)

Filed 10/25/11 for the Period Ending 10/19/11

Address	ONE QUALITY ST LEXINGTON, KY 40507
Telephone	6062552100
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SIC Code	4911 - Electric Services
Fiscal Year	12/29

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 19, 2011

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
1-11459	**PPL Corporation** (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-32944	**PPL Energy Supply, LLC** (Exact name of Registrant as specified in its charter) (Delaware) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-3074920
1-905	**PPL Electric Utilities Corporation** (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	**LG&E and KU Energy LLC** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	**Louisville Gas and Electric Company** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	**Kentucky Utilities Company** (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

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

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 8 - Other Events

Item 8.01 Other Events

On October 19, 2011, each of PPL Energy Supply, LLC, PPL Electric Utilities Corporation, Louisville Gas and Electric Company and Kentucky Utilities Company (individually a “Registrant” and, collectively, the "Registrants") amended their respective revolving credit facilities with Wells Fargo, National Association, as Administrative Agent, Issuing Lender and Swingline Lender, to extend the initial termination date of each revolving credit facility from a date in 2014 to October 19, 2016 and to reduce certain interest rates and fees payable by each of the Registrants under their respective revolving credit facility, as set forth in the copies of each of the amendments to the revolving credit facilities filed as Exhibits 10.1 through 10.4 to this Report, each of which is incorporated herein by reference.

Section 9 - Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

10.1 - Amendment No. 1 to Credit Agreement dated as of October 19, 2011 to Revolving Credit Agreement dated as of October 19, 2010 among PPL Energy Supply, LLC, the Lenders party thereto and Wells Fargo, National Association, as Administrative Agent, Issuing Lender and Swingline Lender.

10.2 - Amendment No. 1 to Credit Agreement dated as of October 19, 2011 to Revolving Credit Agreement dated as of December 31, 2010 among PPL Electric Utilities Corporation, the Lenders party thereto and Wells Fargo, National Association, as Administrative Agent, Issuing Lender and Swingline Lender.

10.3 - Amendment No. 2 to Credit Agreement dated as of October 19, 2011 to Revolving Credit Agreement dated as of November 1, 2010 among Louisville Gas and Electric Company, the Lenders party thereto and Wells Fargo, National Association, as Administrative Agent, Issuing Lender and Swingline Lender.

10.4 - Amendment No. 2 to Credit Agreement dated as of October 19, 2011 to Revolving Credit Agreement dated as of November 1, 2010 among Kentucky Utilities Company, the Lenders party thereto and Wells Fargo, National Association, as Administrative Agent, Issuing Lender and Swingline Lender.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller

PPL ENERGY SUPPLY, LLC

By: /s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller

PPL ELECTRIC UTILITIES CORPORATION

By: /s/ Vincent Sorgi
Vincent Sorgi
Vice President and Chief Accounting Officer

LG&E AND KU ENERGY LLC

By: /s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

KENTUCKY UTILITIES COMPANY

By: /s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

Dated: October 25, 2011

AMENDMENT NO. 1 TO CREDIT AGREEMENT

AMENDMENT dated as of October 19, 2011 (this " **Amendment** ") to the Revolving Credit Agreement dated as of October 19, 2010 (as amended, amended and restated or otherwise modified from time to time, the " **Credit Agreement** ") among PPL ENERGY SUPPLY, LLC (the " **Borrower** "), the LENDERS party thereto (the " **Lenders** ") and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent, Issuing Lender and Swingline Lender (the " **Agent** ").

W I T N E S S E T H :

WHEREAS, the parties hereto desire to amend the Credit Agreement to (i) extend the scheduled Termination Date from December 31, 2014 to October 19, 2016, (ii) modify the definition of "Applicable Percentage" and (iii) make certain other amendments as provided herein.

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1 . *Defined Terms; References* . Unless otherwise specifically defined herein, each term used herein that is defined in the Credit Agreement has the meaning assigned to such term in the Credit Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Credit Agreement shall, after this Amendment becomes effective, refer to the Credit Agreement as amended hereby.

SECTION 2 . *Extension of Termination Date.* The definition of "Termination Date" in Section 1.01 of the Credit Agreement is amended by changing the date specified therein from "December 31, 2014" to "October 19, 2016."

SECTION 3 . *Reduction of Interest Rates.* The chart set forth in the definition of "Applicable Percentage" in Section 1.01 of the Credit Agreement (the " **Existing Pricing Schedule** ") is deleted and replaced by the chart set forth below (the " **New Pricing Schedule** "). The New Pricing Schedule shall apply to interest and fees accruing under the Credit Agreement on and after the date hereof. The Existing Pricing Schedule shall continue to apply to interest and fees accruing under the Credit Agreement prior to the date hereof.

	Borrower's Ratings (S&P /Moody's)	Applicable Percentage for Commitment Fees	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees
Category A	> A from S&P / A2 from Moody's	0.100%	0.000%	1.000%
Category B	> A- from S&P / A3 from Moody's	0.125%	0.125%	1.125%
Category C	BBB+ from S&P / Baa1 from Moody's	0.175%	0.250%	1.250%
Category D	BBB from S&P / Baa2 from Moody's	0.200%	0.500%	1.500%
Category E	BBB- from S&P / Baa3 from Moody's	0.250%	0.625%	1.625%
Category F	≤BB+ from S&P / Ba1 from Moody's	0.350%	0.875%	1.875%

SECTION 4 . *Administrative Agent's Fees.* Section 8.10 of the Credit Agreement is hereby amended to read in its entirety:

> "The Borrower shall pay to the Administrative Agent for its own account fees in the amount and at the times agreed to and accepted by the Borrower, pursuant to that certain fee letter dated as of September 20, 2011 among the Borrower, the Administrative Agent, Bank of America, N.A., The Royal Bank of Scotland plc, Wells Fargo Securities, Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBS Securities Inc."

SECTION 5 . *Changes in Commitments.* W ith effect from and including the Amendment Effective Date, (i) each Person listed on Schedule 1 hereto that is not a party to the Credit Agreement (each, a " **New Lender** " and, together with each Lender that is not an Exiting Lender, the " **Continuing Lenders** ") shall become a Lender party to the Credit Agreement, (ii) the Commitment of each Lender shall be the amount set forth opposite the name of such Lender on Schedule 1 and (iii) the Commitment Appendix set forth on Schedule 1 hereto shall replace the Commitment Appendix attached to the Credit Agreement. On the Amendment Effective Date, any Lender whose Commitment is changed to zero (each, an " **Exiting Lender** ") shall cease to be a Lender party to the Credit Agreement, and all accrued fees and other amounts payable under the Credit Agreement for the account of each Exiting Lender shall be due and payable on such date; provided that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of the Credit Agreement shall continue to inure to the benefit of each Exiting Lender after the Amendment

Effective Date. On the Amendment Effective Date, the Commitment Ratio of the Continuing Lenders shall be redetermined giving effect to the adjustments to the Commitments referred to in this Section 5, and the participations of the Continuing lenders in and the obligations of the Continuing Lenders in respect of any Letters of Credit outstanding on the Amendment Effective Date shall be reallocated to reflect such redetermined Commitment Ratio.

SECTION 6 . *Representations and Warranties.* The following sections of Article V of the Credit Agreement are amended as follows:

(a) The references to "December 31, 2009" in Section 5.04(a) and Section 5.04(c) of the Credit Agreement are changed to "December 31, 2010" and Section 5.04(b) of the Credit Agreement is hereby amended to read in its entirety:

> "The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of June 30, 2011 and the related unaudited consolidated statements of income and cash flows for the six months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such six-month period (subject to normal year-end audit adjustments)."

(b) Each reference to "Escrow Closing Date" in Section 5.11 of the Credit Agreement shall be deemed to be a reference to the "Amendment Effective Date," and Schedule 5.11 of the Credit Agreement is deleted and replaced by the new Schedule 5.11 set forth below.

Restricted Subsidiaries [1]

Restricted Subsidiary	**Jurisdiction of Organization**
PPL Generation, LLC	Delaware
PPL Montana Holdings, LLC	Delaware
PPL Montana, LLC	Delaware
PPL Martins Creek, LLC	Delaware
PPL Brunner Island, LLC	Delaware
PPL Montour, LLC	Delaware
PPL Susquehanna, LLC	Delaware

[1] As of October 19, 2011

PPL Holtwood, LLC	Delaware
PPL EnergyPlus, LLC	Pennsylvania
PPL Investment Corporation	Delaware

SECTION 7 . *Letter of Credit Fees.* Section 2.07(b) of the Credit Agreement is amended by changing the rate specified therein from "0.25%" to "0.20%."

SECTION 8 . *Full Force and Effect; Ratification* . Except as expressly modified herein, all of the terms and conditions of the Credit Agreement are unchanged, and, as modified hereby, the Borrower confirms and ratifies all of the terms, covenants and conditions of the Credit Agreement. This Amendment constitutes the entire and final agreement among the parties hereto with respect to the subject matter hereof and there are no other agreements, understandings, undertakings, representations or warranties among the parties hereto with respect to the subject matter hereof except as set forth herein.

SECTION 9 . *Governing Law* . This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 10 . *Counterparts* . This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

SECTION 11 . *Effectiveness* . This Amendment shall become effective as of the first date when (i) the Agent shall have received, for the account of each Lender, repayment of all outstanding Loans in full together with interest thereon and all accrued but unpaid fees thereunder, including under Section 2.12 of the Credit Agreement, for the period up to but excluding the Amendment Effective Date (it being understood that the principal amount so repaid may, at the Borrower's request and subject to the conditions set forth herein and in the Credit Agreement, be reborrowed on the Amendment Effective Date in accordance with the Commitments in effect at such time giving effect to the adjustments in Section 5 above) and (ii) each of the following conditions are met (the " **Amendment Effective Date** "):

(a) the Agent shall have received from the Borrower, each Exiting Lender and each Continuing Lender a counterpart hereof signed by such party or facsimile or other written confirmation (in form satisfactory to the Agent) that such party has signed a counterpart hereof;

(b) the Agent shall have received a duly executed revised Note for the account of each Lender requesting delivery of such Note pursuant to Section 2.05 of the Credit Agreement;

(c) the Agent shall have received satisfactory opinions of counsel for the Borrower, dated the Amendment Effective Date;

(d) the Agent shall have received a certificate dated the Amendment Effective Date signed on behalf of the Borrower by the Chairman of the Board, the President, any Vice President, the Treasurer or the Assistant Treasurer of the Borrower stating that (A) on the Amendment Effective Date and after giving effect to this Amendment, no Default shall have occurred and be continuing and (B) the representations and warranties of the Borrower contained in the Credit Agreement after giving effect to this Amendment are true and correct on and as of the Amendment Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date and except for the representations in Section 5.16 of the Credit Agreement, which were true and correct as of the Effective Date;

(e) the Agent shall have received (i) a certificate of the Secretary of State of the State of Delaware, dated as of a recent date, as to the good standing of the Borrower and (ii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Amendment Effective Date and certifying (A) that attached thereto is a true, correct and complete copy of (x) the Borrower's certificate of formation certified by the Secretary of State of the State of Delaware and (y) the limited liability company agreement of the Borrower, (B) as to the absence of dissolution or liquidation proceedings by or against the Borrower, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the managers of the Borrower authorizing the execution, delivery and performance of this Amendment and each other document delivered in connection herewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Borrower executing this Amendment or any other document delivered in connection herewith;

(f) all necessary governmental (domestic or foreign), regulatory and third party approvals, if any, in connection with the transactions contemplated by this Amendment and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Agent, materially adverse conditions upon the consummation of such transactions; provided that any such approvals with respect to elections by the Borrower to increase the Commitment as contemplated by Section 2.19 of the Credit Agreement need not be obtained or provided until the Borrower makes any such election; and

(g) the Agent shall have received all costs, fees and expenses due to the Agent, the Joint Lead Arrangers (as such term is defined in the Commitment Letter) and the Lenders.

SECTION 12. *Miscellaneous*. This Amendment shall constitute a Loan Document for all purposes of the Credit Agreement and the other Loan Documents. The provisions of this Amendment are deemed incorporated into the Credit Agreement as if fully set forth therein. The Borrower shall pay all reasonable out-of-pocket costs and expenses of the Agent incurred in connection with the negotiation, preparation and execution of this Amendment and the transactions contemplated hereby.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

PPL ENERGY SUPPLY, LLC

By: /s/ James E. Abel

Name: James E. Abel

Title: Vice President and Treasurer

[Signature Page to Energy Supply – Amendment]

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Agent

By: /s/ Keith Luettel

Name: Keith Luettel

Title: Vice President

[Signature Page to Energy Supply – Amendment]

BANK OF AMERICA, N.A.

By: /s/ Michael Mason

Name: Michael Mason

Title: Director

[Signature Page to Energy Supply – Amendment]

THE ROYAL BANK OF SCOTLAND PLC

By: /s/ Andrew N Taylor

Name: Andrew N Taylor

Title: Vice President

[Signature Page to Energy Supply – Amendment]

CREDIT SUISSE AG, Cayman Islands Branch

By: /s/ Mikhail Faybusovich

Name: Mikhail Faybusovich

Title: Director

By: /s/ Vipul Dhadda

Name: Vipul Dhadda

Title: Associate

[Signature Page to Energy Supply – Amendment]

THE BANK OF NOVA SCOTIA

By: /s/ Thane Rattew

Name: Thane Rattew

Title: Managing Director

[Signature Page to Energy Supply – Amendment]

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.

By: /s/ Bradford Joyce

Name: Bradford Joyce

Title: Director

[Signature Page to Energy Supply – Amendment]

UNION BANK, N.A.

By: /s/ Michael Agrimis

Name: Michael Agrimis

Title: Vice President

[Signature Page to Energy Supply – Amendment]

BARCLAYS BANK PLC

By: /s/ Michael Mozer

Name: Michael Mozer

Title: Vice President

[Signature Page to Energy Supply – Amendment]

BNP PARIBAS

By: /s/ Francis DeLaney
Name: Francis DeLaney
Title: Managing Director

By: /s/ Pasquale Perraglia
Name: Pasquale Perraglia
Title: Vice President

[Signature Page to Energy Supply – Amendment]

CITIBANK, N.A.

By: /s/ Anita J. Brickell

Name: Anita J. Brickell

Title: Vice President

[Signature Page to Energy Supply – Amendment]

JPMORGAN CHASE BANK, N.A.

By: /s/ Juan Javellana

Name: Juan Javellana

Title: Executive Director

[Signature Page to Energy Supply – Amendment]

MORGAN STANLEY BANK, N.A.

By: /s/ Michael King

Name: Michael King

Title: Authorized Signatory

[Signature Page to Energy Supply – Amendment]

ROYAL BANK OF CANADA

By: /s/ Patrick Shields

Name: Patrick Shields

Title: Authorized Signatory

[Signature Page to Energy Supply – Amendment]

UBS LOAN FINANCE LLC

By: /s/ Irja R. Otsa
Name: Irja R. Otsa
Title: Associate Director

By: /s/ Mary E. Evans
Name: Mary E. Evans
Title: Associate Director

[Signature Page to Energy Supply – Amendment]

GOLDMAN SACHS BANK USA

By: /s/ Mark Walton

Name: Mark Walton

Title: Authorized Signatory

[Signature Page to Energy Supply – Amendment]

CREDIT AGRICOLE CORPORATE AND INVESTMENT BANK

By: /s/ Dixon Schultz

Name: Dixon Schultz

Title: Managing Director

By: /s/ Sharada Manne

Name: Sharada Manne

Title: Director

[Signature Page to Energy Supply – Amendment]

DEUTSCHE BANK AG NEW YORK BRANCH

By: /s/ Ming K. Chu

Name: Ming K. Chu

Title: Vice President

By: /s/ Virginia Cosenza

Name: Virginia Cosenza

Title: Vice President

[Signature Page to Energy Supply – Amendment]

KEYBANK NATIONAL ASSOCIATION

By: /s/ Craig A. Hanselman

Name: Craig A. Hanselman

Title: Vice President

[Signature Page to Energy Supply – Amendment]

LLOYDS TSB BANK PLC

By: /s/ Windsor R. Davies
Name: Windsor R. Davies
Title: Managing Director

By: /s/ Charles Foster
Name: Charles Foster
Title: Managing Director

[Signature Page to Energy Supply – Amendment]

U.S. BANK NATIONAL ASSOCIATION

By: /s/ J. James Kim

Name: J. James Kim

Title: Vice President

[Signature Page to Energy Supply – Amendment]

BAYERISCHE LANDESBANK, NEW YORK BRANCH

By: /s/ Rolf Siebert

Name: Rolf Siebert
Title: Senior Vice President

By: /s/ Gina Sandella

Name: Gina Sandella
Title: Vice President

[Signature Page to Energy Supply – Amendment]

BANCO BILBAO VIZCAYA ARGENTARIA S.A. – NEW YORK BRANCO

By: /s/ Michael Oka
Name: Michael Oka
Title: Executive Director

By: /s/ Nietzsche Rodricks
Name: Nietzsche Rodricks
Title: Executive Director

[Signature Page to Energy Supply – Amendment]

THE BANK OF NEW YORK MELLON

By: /s/ John N. Watt

Name: John N. Watt

Title: Vice President

[Signature Page to Energy Supply – Amendment]

MIZUHO CORPORATE BANK, LTD.

By: /s/ Raymond Ventura

Name: Raymond Ventura

Title: Deputy General Manager

[Signature Page to Energy Supply – Amendment]

SOVEREIGN BANK

By: /s/ Robert D. Lanigan

Name: Robert D. Lanigan

Title: SVP

[Signature Page to Energy Supply – Amendment]

SUNTRUST BANK

By: /s/ Andrew Johnson

Name: Andrew Johnson

Title: Director

[Signature Page to Energy Supply – Amendment]

CIBC INC.

By: /s/ Josh Hogarth
Name: Josh Hogarth
Title: Director

By: /s/ Eoin Roche
Name: Eoin Roche
Title: Executive Director

[Signature Page to Energy Supply – Amendment]

FIFTH THIRD BANK

By: /s/ Randolph J. Stierer

Name: Randolph J. Stierer

Title: Vice President

[Signature Page to Energy Supply – Amendment]

PNC BANK, NATIONAL ASSOCIATION

By: /s/ Edward M. Tessalone

Name: Edward M. Tessalone

Title: Senior Vice President

[Signature Page to Energy Supply – Amendment]

SUMITOMO MITSUI BANKING CORPORATION

By: /s/ Masakazu Hasegawa

Name: Masakazu Hasegawa

Title: Managing Director

[Signature Page to Energy Supply – Amendment]

THE NORTHERN TRUST COMPANY

By: /s/ Peter J. Hallan

Name: Peter J. Hallan

Title: Vice President

[Signature Page to Energy Supply – Amendment]

LAND BANK OF TAIWAN

By: /s/ Henry Leu

Name: Henry Leu

Title: SVP & General Manager

[Signature Page to Energy Supply – Amendment]

WING LUNG BANK LTD. LOS ANGELES BRANCH

By: /s/ Irene Kwan

Name: Irene Kwan

Title: VP/ Deputy Branch Manager

[Signature Page to Energy Supply – Amendment]

Schedule 1

Commitment Appendix

Lender	Revolving Commitment
Wells Fargo Bank, National Association	$153,750,000.00
Bank of America, N.A.	153,750,000.00
The Royal Bank of Scotland plc	153,750,000.00
Credit Suisse AG, Cayman Islands Branch	142,500,000.00
The Bank of Nova Scotia	142,500,000.00
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	71,250,000.00
Union Bank, N.A.	71,250,000.00
Barclays Bank PLC	142,500,000.00
BNP Paribas	142,500,000.00
Citibank, N.A..	142,500,000.00
JPMorgan Chase Bank, N.A.	142,500,000.00
Morgan Stanley Bank, N.A.	142,500,000.00
Royal Bank of Canada	142,500,000.00
UBS Loan Finance LLC	142,500,000.00
Goldman Sachs Bank USA	142,500,000.00
Credit Agricole Corporate & Investment Bank	105,000,000.00
Deutsche Bank AG New York Branch	105,000,000.00
KeyBank National Association	105,000,000.00
Lloyds TSB Bank plc	105,000,000.00
U.S. Bank National Association	105,000,000.00
Bayerische Landesbank, New York Branch	51,000,000.00
Banco Bilbao Vizcaya Argentaria S.A.	51,000,000.00
The Bank of New York Mellon	51,000,000.00
Mizuho Corporate Bank, Ltd.	51,000,000.00
Sovereign Bank	51,000,000.00
SunTrust Bank	51,000,000.00
CIBC Inc.	30,000,000.00
Fifth Third Bank	30,000,000.00
PNC Bank, National Association	30,000,000.00
Sumitomo Mitsui Banking Corporation	30,000,000.00
The Northern Trust Company	20,250,000.00
Land Bank of Taiwan	0.00
Wing Lung Bank Ltd. Los Angeles Branch	0.00
Total	**$3,000,000,000.00**

AMENDMENT NO. 1 TO CREDIT AGREEMENT

AMENDMENT dated as of October 19, 2011 (this " **Amendment** ") to the Revolving Credit Agreement dated as of December 31, 2010 (as amended, amended and restated or otherwise modified from time to time, the " **Credit Agreement** ") among PPL ELECTRIC UTILITIES CORPORATION (the " **Borrower** "), the LENDERS party thereto (the " **Lenders** ") and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent, Issuing Lender and Swingline Lender (the " **Agent** ").

W I T N E S S E T H :

WHEREAS, the parties hereto desire to amend the Credit Agreement to (i) extend the scheduled Termination Date from December 31, 2014 to October 19, 2016, (ii) modify the definition of "Applicable Percentage" and (iii) make certain other amendments as provided herein.

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1 . *Defined Terms; References* . Unless otherwise specifically defined herein, each term used herein that is defined in the Credit Agreement has the meaning assigned to such term in the Credit Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Credit Agreement shall, after this Amendment becomes effective, refer to the Credit Agreement as amended hereby.

SECTION 2 . *Extension of Termination Date.* The definition of "Termination Date" in Section 1.01 of the Credit Agreement is amended by changing the date specified therein from "December 31, 2014" to "October 19, 2016."

SECTION 3 . *Reduction of Interest Rates.* The chart set forth in the definition of "Applicable Percentage" in Section 1.01 of the Credit Agreement (the " **Existing Pricing Schedule** ") is deleted and replaced by the chart set forth below (the " **New Pricing Schedule** "). The New Pricing Schedule shall apply to interest and fees accruing under the Credit Agreement on and after the date hereof. The Existing Pricing Schedule shall continue to apply to interest and fees accruing under the Credit Agreement prior to the date hereof.

	Borrower's Ratings (S&P /Moody's)	Applicable Percentage for Commitment Fees	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees
Category A	≥ A from S&P / A2 from Moody's	0.100%	0.000%	1.000%
Category B	≥ A- from S&P / A3 from Moody's	0.125%	0.125%	1.125%
Category C	BBB+ from S&P / Baa1 from Moody's	0.175%	0.250%	1.250%
Category D	BBB from S&P / Baa2 from Moody's	0.200%	0.500%	1.500%
Category E	BBB- from S&P / Baa3 from Moody's	0.250%	0.625%	1.625%
Category F	≤BB+ from S&P / Ba1 from Moody's	0.350%	0.875%	1.875%

SECTION 4 . *Administrative Agent's Fees.* Section 8.10 of the Credit Agreement is hereby amended to read in its entirety:

"The Borrower shall pay to the Administrative Agent for its own account fees in the amount and at the times agreed to and accepted by the Borrower, pursuant to that certain fee letter dated as of September 20, 2011 among the Borrower, the Administrative Agent, Bank of America, N.A., The Royal Bank of Scotland plc, Wells Fargo Securities, Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBS Securities Inc."

SECTION 5 . *Changes in Commitments.* W ith effect from and including the Amendment Effective Date, (i) each Person listed on Schedule 1 hereto that is not a party to the Credit Agreement (each, a " **New Lender** " and, together with each Lender that is not an Exiting Lender, the " **Continuing Lenders** ") shall become a Lender party to the Credit Agreement, (ii) the Commitment of each Lender shall be the amount set forth opposite the name of such Lender on Schedule 1 and (iii) the Commitment Appendix set forth on Schedule 1 hereto shall replace the Commitment Appendix attached to the Credit Agreement. On the Amendment Effective Date, any Lender whose Commitment is changed to zero (each, an " **Exiting Lender** ") shall cease to be a Lender party to the Credit Agreement, and all accrued fees and other amounts payable under the Credit Agreement for the account of each Exiting Lender shall be due and payable on such date; provided that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of the Credit Agreement shall continue to inure to the benefit of each Exiting Lender after the Amendment Effective Date. On the Amendment Effective Date, the Commitment Ratio of the Continuing Lenders shall be redetermined giving effect to the adjustments to the Commitments referred to in this Section 5, and the participations of the Continuing lenders in and the obligations of the Continuing Lenders in respect of any Letters of Credit outstanding on the Amendment Effective Date shall be reallocated to reflect such redetermined Commitment Ratio.

SECTION 6 . *Letter of Credit Fees.* Section 2.07(b) of the Credit Agreement is amended by changing the rate specified therein from "0.25%" to "0.20%."

SECTION 7 . *Representations and Warranties.* The following sections of Article V of the Credit Agreement are amended as follows:

(a) The references to "December 31, 2009" in Section 5.04(a) and Section 5.04(c) of the Credit Agreement are changed to "December 31, 2010" and Section 5.04(b) of the Credit Agreement is hereby amended to read in its entirety:

> "The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of June 30, 2011 and the related unaudited consolidated statements of income and cash flows for the six months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such six-month period (subject to normal year-end audit adjustments)."

(b) References in Section 5.08 of the Credit Agreement to the PUC Order shall be deemed to include any orders of the Pennsylvania Public Utility Commission (" **PUC** ") delivered pursuant to Section 11(f) of this Amendment.

SECTION 8 . *Full Force and Effect; Ratification* . Except as expressly modified herein, all of the terms and conditions of the Credit Agreement are unchanged, and, as modified hereby, the Borrower confirms and ratifies all of the terms, covenants and conditions of the Credit Agreement. This Amendment constitutes the entire and final agreement among the parties hereto with respect to the subject matter hereof and there are no other agreements, understandings, undertakings, representations or warranties among the parties hereto with respect to the subject matter hereof except as set forth herein.

SECTION 9 . *Governing Law* . This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 10 . *Counterparts* . This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

SECTION 11 . *Effectiveness* . This Amendment shall become effective as of the first date when each of the following conditions are met (the " **Amendment Effective Date** "):

(a) the Agent shall have received from the Borrower and each Continuing Lender and Lenders constituting Required Lenders a counterpart hereof signed by such party or facsimile or other written confirmation (in form satisfactory to the Agent) that such party has signed a counterpart hereof;

(b) the Agent shall have received a duly executed revised Note for the account of each Lender requesting delivery of such Note pursuant to Section 2.05 of the Credit Agreement;

(c) the Agent shall have received satisfactory opinions of counsel for the Borrower, dated the Amendment Effective Date;

(d) the Agent shall have received a certificate dated the Amendment Effective Date signed on behalf of the Borrower by the Chairman of the Board, the President, any Vice President, the Treasurer or the Assistant Treasurer of the Borrower stating that (A) on the Amendment Effective Date and after giving effect to this Amendment, no Default shall have occurred and be continuing and (B) the representations and warranties of the Borrower contained in the Credit Agreement after giving effect to this Amendment are true and correct on and as of the Amendment Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date;

(e) the Agent shall have received (i) a certificate of the Secretary of State of the Commonwealth of Pennsylvania, dated as of a recent date, as to the good standing of the Borrower and (ii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Amendment Effective Date and certifying (A) that attached thereto is a true, correct and complete copy of (x) the Borrower's articles of incorporation certified by the Secretary of State of the Commonwealth of Pennsylvania and (y) the bylaws of the Borrower, (B) as to the absence of dissolution or liquidation proceedings by or against the Borrower, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of this Amendment and each other document delivered in connection herewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Borrower executing this Amendment or any other document delivered in connection herewith;

(f) all necessary governmental (domestic or foreign), regulatory and third party approvals, including, without limitation, the order of the PUC and any required approvals of the Federal Energy Regulatory Commission, authorizing borrowings hereunder in connection with the transactions contemplated by this Amendment and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Agent, materially adverse conditions upon the consummation of such transactions; provided that any such approvals with respect to elections by the Borrower to increase the Commitment as contemplated by Section 2.19 of the Credit Agreement need not be obtained or provided until the Borrower makes any such election;

(g) there shall be no outstanding Loans; and

(h) the Agent shall have received all costs, fees and expenses due to the Agent, the Joint Lead Arrangers (as such term is defined in the Commitment Letter) and the Lenders.

SECTION 12 . *Miscellaneous* . This Amendment shall constitute a Loan Document for all purposes of the Credit Agreement and the other Loan Documents. The provisions of this Amendment are deemed incorporated into the Credit Agreement as if fully set forth therein. The Borrower shall pay all reasonable out-of-pocket costs and expenses of the Agent incurred in connection with the negotiation, preparation and execution of this Amendment and the transactions contemplated hereby.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

PPL ELECTRIC UTILITIES CORPORATION
By: /s/ James E. Abel
Name:James E. Abel
Title: Treasurer

[Signature Page to Electric Utilities – Amendment]

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Agent

By: /s/ Keith Luettel

Name: Keith Luettel

Title: Vice President

[Signature Page to Electric Utilities – Amendment]

BANK OF AMERICA, N.A.

By: /s/ Michael Mason

Name: Michael Mason

Title: Director

[Signature Page to Electric Utilities – Amendment]

THE ROYAL BANK OF SCOTLAND PLC

By: /s/ Andrew N. Taylor

Name: Andrew N. Taylor

Title: Vice President

[Signature Page to Electric Utilities – Amendment]

CREDIT SUISSE AG, Cayman Islands Branch

By: /s/ Mikhail Faybusovich
Name: Mikhail Faybusovich
Title: Director

By: /s/ Vipul Dhadda
Name: Vipul Dhadda
Title: Associate

[Signature Page to Electric Utilities – Amendment]

THE BANK OF NOVA SCOTIA

By: /s/ Thane Rattew

Name: Thane Rattew

Title: Managing Director

[Signature Page to Electric Utilities – Amendment]

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.

By: /s/ Bradford Joyce

Name: Bradford Joyce

Title: Director

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UNION BANK, N.A.

By: /s/ Michael Agrimis

Name: Michael Agrimis

Title: Vice President

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By: /s/ Michael Mozer

Name: Michael Mozer

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By: /s/ Francis DeLaney

Name: Francis DeLaney

Title: Managing Director

By: /s/ Pasquale Perraglia

Name: Pasquale Perraglia

Title: Vice President

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By: /s/ Juan Javellana

Name: Juan Javellana

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MORGAN STANLEY BANK, N.A.

By: /s/ Michael King

Name: Michael King

Title: Authorized Signatory

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Title: Associate Director

By: /s/ Mary E. Evans

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By: /s/ Mark Walton

Name: Mark Walton

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Name: Dixon Schultz

Title: Managing Director

By: /s/ Sharada Manne

Name: Sharada Manne

Title: Director

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Title: Vice President

By: /s/ Virginia Cosenza

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By: /s/ Charles Foster

Name: Charles Foster

Title: Managing Director

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By: /s/ J. James Kim

Name: J. James Kim

Title: Vice President

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By: /s/ Rolf Siebert
Name: Rolf Siebert
Title: Senior Vice President

By: /s/ Gina Sandella
Name: Gina Sandella
Title: Vice President

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BANCO BILBAO VIZCAYA ARGENTARIA S.A. – NEW YORK BRANCO

By: /s/ Michael Oka
Name: Michael Oka
Title: Executive Director

By: /s/ Nietzsche Rodricks
Name: Nietzsche Rodricks
Title: Executive Director

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By: /s/ John N. Watt

Name: John N. Watt

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SUNTRUST BANK

By: /s/ Andrew Johnson

Name: Andrew Johnson

Title: Director

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By: /s/ Josh Hogarth

Name: Josh Hogarth

Title: Director

By: /s/ Eoin Roche

Name: Eoin Roche

Title: Executive Director

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FIFTH THIRD BANK

By: /s/ Randolph J. Stierer

Name: Randolph J. Stierer

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By: /s/ Masakazu Hasegawa

Name: Masakazu Hasegawa

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By: /s/ Peter J. Hallan

Name: Peter J. Hallan

Title: Vice President

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WING LUNG BANK LTD. LOS ANGELES BRANCH

By: /s/ Irene Kwan

Name: Irene Kwan

Title: VP/ Deputy Branch Manager

[Signature Page to Electric Utilities – Amendment]

Schedule 1

Commitment Appendix

Lender	Revolving Commitment
Wells Fargo Bank, National Association	$10,250,000.00
Bank of America, N.A.	10,250,000.00
The Royal Bank of Scotland plc	10,250,000.00
Credit Suisse AG, Cayman Islands Branch	9,500,000.00
The Bank of Nova Scotia	9,500,000.00
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,750,000.00
Union Bank, N.A.	4,750,000.00
Barclays Bank PLC	9,500,000.00
BNP Paribas	9,500,000.00
Citibank, N.A.	9,500,000.00
JPMorgan Chase Bank, N.A.	9,500,000.00
Morgan Stanley Bank, N.A.	9,500,000.00
Royal Bank of Canada	9,500,000.00
UBS Loan Finance LLC	9,500,000.00
Goldman Sachs Bank USA	9,500,000.00
Credit Agricole Corporate & Investment Bank	7,000,000.00
Deutsche Bank AG New York Branch	7,000,000.00
KeyBank National Association	7,000,000.00
Lloyds TSB Bank plc	7,000,000.00
U.S. Bank National Association	7,000,000.00
Bayerische Landesbank, New York Branch	3,400,000.00
Banco Bilbao Vizcaya Argentaria S.A.	3,400,000.00
The Bank of New York Mellon	3,400,000.00
Mizuho Corporate Bank, Ltd.	3,400,000.00
Sovereign Bank	3,400,000.00
SunTrust Bank	3,400,000.00
CIBC Inc.	2,000,000.00
Fifth Third Bank	2,000,000.00
PNC Bank, National Association	2,000,000.00
Sumitomo Mitsui Banking Corporation	2,000,000.00
The Northern Trust Company	1,350,000.00
Wing Lung Bank Ltd. Los Angeles Branch	0.00
Total	**$200,000,000.00**

AMENDMENT NO. 2 TO CREDIT AGREEMENT

AMENDMENT dated as of October 19, 2011 (this " **Amendment** ") to the Revolving Credit Agreement dated as of November 1, 2010 (as amended, amended and restated or otherwise modified from time to time, the " **Credit Agreement** ") among LOUISVILLE GAS AND ELECTRIC COMPANY (the " **Borrower** "), the LENDERS party thereto (the " **Lenders** ") and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent, Issuing Lender and Swingline Lender (the " **Agent** ").

W I T N E S S E T H :

WHEREAS, the parties hereto desire to amend the Credit Agreement to (i) extend the scheduled Termination Date from December 31, 2014 to October 19, 2016, (ii) modify the definition of "Applicable Percentage" and (iii) make certain other amendments as provided herein.

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1 . *Defined Terms; References* . Unless otherwise specifically defined herein, each term used herein that is defined in the Credit Agreement has the meaning assigned to such term in the Credit Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Credit Agreement shall, after this Amendment becomes effective, refer to the Credit Agreement as amended hereby.

SECTION 2 . *Extension of Termination Date.* The definition of "Termination Date" in Section 1.01 of the Credit Agreement is amended by changing the date specified therein from "December 31, 2014" to "October 19, 2016."

SECTION 3 . *Reduction of Interest Rates.* The chart set forth in the definition of "Applicable Percentage" in Section 1.01 of the Credit Agreement (the " **Existing Pricing Schedule** ") is deleted and replaced by the chart set forth below (the " **New Pricing Schedule** "). The New Pricing Schedule shall apply to interest and fees accruing under the Credit Agreement on and after the date hereof. The Existing Pricing Schedule shall continue to apply to interest and fees accruing under the Credit Agreement prior to the date hereof.

	Borrower's Ratings (S&P /Moody's)	Applicable Percentage for Commitment Fees	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees
Category A	≥ A from S&P / A2 from Moody's	0.100%	0.000%	1.000%
Category B	≥ A- from S&P / A3 from Moody's	0.125%	0.125%	1.125%
Category C	BBB+ from S&P / Baa1 from Moody's	0.175%	0.250%	1.250%
Category D	BBB from S&P / Baa2 from Moody's	0.200%	0.500%	1.500%
Category E	BBB- from S&P / Baa3 from Moody's	0.250%	0.625%	1.625%
Category F	≤BB+ from S&P / Ba1 from Moody's	0.350%	0.875%	1.875%

SECTION 4 . *Administrative Agent's Fees.* Section 8.10 of the Credit Agreement is hereby amended to read in its entirety:

"The Borrower shall pay to the Administrative Agent for its own account fees in the amount and at the times agreed to and accepted by the Borrower, pursuant to that certain fee letter dated as of September 20, 2011 among the Borrower, the Administrative Agent, Bank of America, N.A., The Royal Bank of Scotland plc, Wells Fargo Securities, Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBS Securities Inc."

SECTION 5 . *Changes in Commitments.* W ith effect from and including the Amendment Effective Date, (i) each Person listed on Schedule 1 hereto that is not a party to the Credit Agreement (each, a " **New Lender** " and, together with each Lender that is not an Exiting Lender, the " **Continuing Lenders** ") shall become a Lender party to the Credit Agreement, (ii) the Commitment of each Lender shall be the amount set forth opposite the name of such Lender on Schedule 1 and (iii) the Commitment Appendix set forth on Schedule 1 hereto shall replace the Commitment Appendix attached to the Credit Agreement. On the Amendment Effective Date, any Lender whose Commitment is changed to zero (each, an " **Exiting Lender** ") shall cease to be a Lender party to the Credit Agreement, and all accrued fees and other amounts payable under the Credit Agreement for the account of each Exiting Lender shall be due and payable on such date; provided that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of the Credit Agreement shall continue to inure to the benefit of each Exiting Lender after the Amendment Effective Date. On the Amendment Effective Date, the Commitment Ratio of the Continuing Lenders shall be redetermined giving effect to the adjustments to the

Commitments referred to in this Section 5, and the participations of the Continuing lenders in and the obligations of the Continuing Lenders in respect of any Letters of Credit outstanding on the Amendment Effective Date shall be reallocated to reflect such redetermined Commitment Ratio.

SECTION 6. *Letter of Credit Fees.* Section 2.07(b) of the Credit Agreement is amended by changing the rate specified therein from “0.25%” to “0.20%.”

SECTION 7. *Representations and Warranties.* The following sections of Article V of the Credit Agreement are amended as follows:

(a) The references to “December 31, 2009” in Section 5.04(a) and Section 5.04(c) of the Credit Agreement are changed to “December 31, 2010” and Section 5.04(b) of the Credit Agreement is hereby amended to read in its entirety:

> “The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of June 30, 2011 and the related unaudited consolidated statements of income and cash flows for the six months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such six-month period (subject to normal year-end audit adjustments).”

(b) Section 5.05 of the Credit Agreement is hereby amended to add the following clause immediately prior to the clause “or otherwise furnished in writing to the Administrative Agent and each Lender,”:

> “or in any subsequent report of the Borrower filed with the SEC on Form 10-K, 10-Q or 8-K,”

(c) References in Section 5.08 of the Credit Agreement to the KPSC Order shall be deemed to include any orders of the Kentucky Public Service Commission (“ **KPSC** ”) delivered pursuant to Section 11(f) of this Amendment.

(d) Section 5.13(a)(i) and Section 5.13(b) of the Credit Agreement are each hereby amended to add the following clause immediately prior to the clause “or otherwise furnished in writing to the Administrative Agent and each Lender,”:

> “or in any subsequent report of the Borrower filed with the SEC on Form 10-K, 10-Q or 8-K,”

(e) Section 5.15 of the Credit Agreement is hereby deleted.

SECTION 8 . *Full Force and Effect; Ratification* . Except as expressly modified herein, all of the terms and conditions of the Credit Agreement are unchanged, and, as modified hereby, the Borrower confirms and ratifies all of the terms, covenants and conditions of the Credit Agreement. This Amendment constitutes the entire and final agreement among the parties hereto with respect to the subject matter hereof and there are no other agreements, understandings, undertakings, representations or warranties among the parties hereto with respect to the subject matter hereof except as set forth herein.

SECTION 9 . *Governing Law* . This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 10 . *Counterparts* . This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

SECTION 11 . *Effectiveness* . This Amendment shall become effective as of the first date when each of the following conditions are met (the " **Amendment Effective Date** "):

(a) the Agent shall have received from the Borrower and each Continuing Lender and Lenders constituting Required Lenders a counterpart hereof signed by such party or facsimile or other written confirmation (in form satisfactory to the Agent) that such party has signed a counterpart hereof;

(b) the Agent shall have received a duly executed revised Note for the account of each Lender requesting delivery of such Note pursuant to Section 2.05 of the Credit Agreement;

(c) the Agent shall have received satisfactory opinions of counsel for the Borrower, dated the Amendment Effective Date;

(d) the Agent shall have received a certificate dated the Amendment Effective Date signed on behalf of the Borrower by the Chairman of the Board, the President, any Vice President, the Treasurer or the Assistant Treasurer of the Borrower stating that (A) on the Amendment Effective Date and after giving effect to this Amendment, no Default shall have occurred and be continuing and (B) the representations and warranties of the Borrower contained in the Credit Agreement after giving effect to this Amendment are true and correct on and as of the Amendment Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date;

(e) the Agent shall have received (i) a certificate of the Secretary of State of the Commonwealth of Kentucky, dated as of a recent date, as to the good standing of the Borrower and (ii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Amendment Effective Date and certifying (A) that attached thereto is a true, correct and complete copy of (x) the Borrower's articles of incorporation certified by the Secretary of State of the Commonwealth of Kentucky and (y) the bylaws of the Borrower, (B) as to the absence of dissolution or liquidation proceedings by or against the Borrower, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of this Amendment and each other document delivered in connection herewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Borrower executing this Amendment or any other document delivered in connection herewith;

(f) all necessary governmental (domestic or foreign), regulatory· and third party approvals, including, without limitation, the order of the KPSC and any required approvals of the Federal Energy Regulatory Commission, authorizing borrowings hereunder in connection with the transactions contemplated by this Amendment and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Agent, materially adverse conditions upon the consummation of such transactions; provided that any such approvals with respect to elections by the Borrower to increase the Commitment as contemplated by Section 2.19 of the Credit Agreement need not be obtained or provided until the Borrower makes any such election;

(g) there shall be no outstanding Loans; and

(h) the Agent shall have received all costs, fees and expenses due to the Agent, the Joint Lead Arrangers (as such term is defined in the Commitment Letter) and the Lenders.

SECTION 12 . *Miscellaneous* . This Amendment shall constitute a Loan Document for all purposes of the Credit Agreement and the other Loan Documents. The provisions of this Amendment are deemed incorporated into the Credit Agreement as if fully set forth therein. The Borrower shall pay all reasonable out-of-pocket costs and expenses of the Agent incurred in connection with the negotiation, preparation and execution of this Amendment and the transactions contemplated hereby.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

LOUISVILLE GAS AND ELECTRIC COMPANY
By: /s/ Daniel K. Arbough
Name: Daniel K. Arbough
Title: Treasurer

[Signature Page to LGE – Amendment]

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Agent

By: /s/ Keith Luettel

Name: Keith Luettel

Title: Vice President

[Signature Page to LGE – Amendment]

BANK OF AMERICA, N.A.

By: /s/ Michael Mason

Name: Michael Mason

Title: Director

[Signature Page to LGE – Amendment]

THE ROYAL BANK OF SCOTLAND PLC

By: /s/ Andrew N Taylor

Name: Andrew N Taylor

Title: Vice President

[Signature Page to LGE – Amendment]

CREDIT SUISSE AG, Cayman Islands Branch

By: /s/ Mikhail Faybusovich

Name: Mikhail Faybusovich

Title: Director

By: /s/ Vipul Dhadda

Name: Vipul Dhadda

Title: Associate

[Signature Page to LGE – Amendment]

THE BANK OF NOVA SCOTIA

By: /s/ Thane Rattew

Name: Thane Rattew

Title: Managing Director

[Signature Page to LGE – Amendment]

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Title: Authorized Signatory

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Name: Irja R. Otsa

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By: /s/ Mary E. Evans

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Name: Ming K. Chu

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By: /s/ Virginia Cosenza

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By: /s/ Charles Foster

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Title: Managing Director

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Title: Vice President

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By: /s/ Gina Sandella

Name: Gina Sandella

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By: /s/ Nietzsche Rodricks

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By: /s/ Josh Hogarth
Name: Josh Hogarth
Title: Director

By: /s/ Eoin Roche
Name: Eoin Roche
Title: Executive Director

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Name: Randolph J. Stierer

Title: Vice President

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By: /s/ Edward M. Tessalone

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By: /s/ Masakazu Hasegawa

Name: Masakazu Hasegawa

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THE NORTHERN TRUST COMPANY

By: /s/ Peter J. Hallan

Name: Peter J. Hallan

Title: Vice President

[Signature Page to LGE – Amendment]

WING LUNG BANK LTD. LOS ANGELES BRANCH

By: /s/ Irene Kwan

Name: Irene Kwan

Title: VP/ Deputy Branch Manager

[Signature Page to LGE – Amendment]

Schedule 1

Commitment Appendix

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Credit Suisse AG, Cayman Islands Branch	19,000,000.00
The Bank of Nova Scotia	19,000,000.00
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	9,500,000.00
Union Bank, N.A.	9,500,000.00
Barclays Bank PLC	19,000,000.00
BNP Paribas	19,000,000.00
Citibank, N.A..	19,000,000.00
JPMorgan Chase Bank, N.A.	19,000,000.00
Morgan Stanley Bank, N.A.	19,000,000.00
Royal Bank of Canada	19,000,000.00
UBS Loan Finance LLC	19,000,000.00
Goldman Sachs Bank USA	19,000,000.00
Credit Agricole Corporate & Investment Bank	14,000,000.00
Deutsche Bank AG New York Branch	14,000,000.00
KeyBank National Association	14,000,000.00
Lloyds TSB Bank plc	14,000,000.00
U.S. Bank National Association	14,000,000.00
Bayerische Landesbank, New York Branch	6,800,000.00
Banco Bilbao Vizcaya Argentaria S.A.	6,800,000.00
The Bank of New York Mellon	6,800,000.00
Mizuho Corporate Bank, Ltd.	6,800,000.00
Sovereign Bank	6,800,000.00
SunTrust Bank	6,800,000.00
CIBC Inc.	4,000,000.00
Fifth Third Bank	4,000,000.00
PNC Bank, National Association	4,000,000.00
Sumitomo Mitsui Banking Corporation	4,000,000.00
The Northern Trust Company	2,700,000.00
Wing Lung Bank Ltd. Los Angeles Branch	0.00
Total	**$400,000,000.00**

AMENDMENT NO. 2 TO CREDIT AGREEMENT

AMENDMENT dated as of October 19, 2011 (this " **Amendment** ") to the Revolving Credit Agreement dated as of November 1, 2010 (as amended, amended and restated or otherwise modified from time to time, the " **Credit Agreement** ") among KENTUCKY UTILITIES COMPANY (the " **Borrower** "), the LENDERS party thereto (the " **Lenders** ") and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent, Issuing Lender and Swingline Lender (the " **Agent** ").

W I T N E S S E T H :

WHEREAS, the parties hereto desire to amend the Credit Agreement to (i) extend the scheduled Termination Date from December 31, 2014 to October 19, 2016, (ii) modify the definition of "Applicable Percentage" and (iii) make certain other amendments as provided herein.

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1 . *Defined Terms; References* . Unless otherwise specifically defined herein, each term used herein that is defined in the Credit Agreement has the meaning assigned to such term in the Credit Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Credit Agreement shall, after this Amendment becomes effective, refer to the Credit Agreement as amended hereby.

SECTION 2 . *Extension of Termination Date.* The definition of "Termination Date" in Section 1.01 of the Credit Agreement is amended by changing the date specified therein from "December 31, 2014" to "October 19, 2016."

SECTION 3 . *Reduction of Interest Rates.* The chart set forth in the definition of "Applicable Percentage" in Section 1.01 of the Credit Agreement (the " **Existing Pricing Schedule** ") is deleted and replaced by the chart set forth below (the " **New Pricing Schedule** "). The New Pricing Schedule shall apply to interest and fees accruing under the Credit Agreement on and after the date hereof. The Existing Pricing Schedule shall continue to apply to interest and fees accruing under the Credit Agreement prior to the date hereof.

	Borrower’s Ratings (S&P /Moody’s)	Applicable Percentage for Commitment Fees	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees
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Category B	≥ A- from S&P / A3 from Moody’s	0.125%	0.125%	1.125%
Category C	BBB+ from S&P / Baa1 from Moody’s	0.175%	0.250%	1.250%
Category D	BBB from S&P / Baa2 from Moody’s	0.200%	0.500%	1.500%
Category E	BBB- from S&P / Baa3 from Moody’s	0.250%	0.625%	1.625%
Category F	≤BB+ from S&P / Ba1 from Moody’s	0.350%	0.875%	1.875%

SECTION 4 . *Administrative Agent’s Fees.* Section 8.10 of the Credit Agreement is hereby amended to read in its entirety:

> “The Borrower shall pay to the Administrative Agent for its own account fees in the amount and at the times agreed to and accepted by the Borrower, pursuant to that certain fee letter dated as of September 20, 2011 among the Borrower, the Administrative Agent, Bank of America, N.A., The Royal Bank of Scotland plc, Wells Fargo Securities, Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBS Securities Inc.”

SECTION 5 . *Changes in Commitments.* W ith effect from and including the Amendment Effective Date, (i) each Person listed on Schedule 1 hereto that is not a party to the Credit Agreement (each, a “ **New Lender** ” and, together with each Lender that is not an Exiting Lender, the “ **Continuing Lenders** ”) shall become a Lender party to the Credit Agreement, (ii) the Commitment of each Lender shall be the amount set forth opposite the name of such Lender on Schedule 1 and (iii) the Commitment Appendix set forth on Schedule 1 hereto shall replace the Commitment Appendix attached to the Credit Agreement. On the Amendment Effective Date, any Lender whose Commitment is changed to zero (each, an “ **Exiting Lender** ”) shall cease to be a Lender party to the Credit Agreement, and all accrued fees and other amounts payable under the Credit Agreement for the account of each Exiting Lender shall be due and payable on such date; provided that the provisions of Sections 2.12, 2.16, 2.17 and 9.03 of the Credit Agreement shall continue to inure to the benefit of each Exiting Lender after the Amendment Effective Date. On the Amendment Effective Date, the Commitment Ratio of the Continuing Lenders shall be redetermined giving effect to the adjustments to the Commitments referred to in this Section 5, and the participations of the

Continuing lenders in and the obligations of the Continuing Lenders in respect of any Letters of Credit outstanding on the Amendment Effective Date shall be reallocated to reflect such redetermined Commitment Ratio.

SECTION 6 . *Letter of Credit Fees.* Section 2.07(b) of the Credit Agreement is amended by changing the rate specified therein from "0.25%" to "0.20%."

SECTION 7 . *Representations and Warranties.* The following sections of Article V of the Credit Agreement are amended as follows:

(a) The references to "December 31, 2009" in Section 5.04(a) and Section 5.04(c) of the Credit Agreement are changed to "December 31, 2010" and Section 5.04(b) of the Credit Agreement is hereby amended to read in its entirety:

> "The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of June 30, 2011 and the related unaudited consolidated statements of income and cash flows for the six months then ended fairly present, in conformity with GAAP applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such six-month period (subject to normal year-end audit adjustments)."

(b) Section 5.05 of the Credit Agreement is hereby amended to add the following clause immediately prior to the clause "or otherwise furnished in writing to the Administrative Agent and each Lender,":

> "or in any subsequent report of the Borrower filed with the SEC on Form 10-K, 10-Q or 8-K,"

(c) References in Section 5.08 of the Credit Agreement to the KPSC Order, TRA Order and VSCC Order shall be deemed to include any orders of the Kentucky Public Service Commission (" **KPSC** "), Tennessee Regulatory Authority (" **TRA** ") and Virginia State Corporation Commission (" **VSCC** ") delivered pursuant to Section 11(f) of this Amendment.

(d) Section 5.13(a)(i) and Section 5.13(b) of the Credit Agreement are each hereby amended to add the following clause immediately prior to the clause "or otherwise furnished in writing to the Administrative Agent and each Lender,":

"or in any subsequent report of the Borrower filed with the SEC on Form 10-K, 10-Q or 8-K,"

(e) Section 5.15 of the Credit Agreement is hereby deleted.

SECTION 8 . *Full Force and Effect; Ratification* . Except as expressly modified herein, all of the terms and conditions of the Credit Agreement are unchanged, and, as modified hereby, the Borrower confirms and ratifies all of the terms, covenants and conditions of the Credit Agreement. This Amendment constitutes the entire and final agreement among the parties hereto with respect to the subject matter hereof and there are no other agreements, understandings, undertakings, representations or warranties among the parties hereto with respect to the subject matter hereof except as set forth herein.

SECTION 9 . *Governing Law* . This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 10 . *Counterparts* . This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

SECTION 11 . *Effectiveness* . This Amendment shall become effective as of the first date when each of the following conditions are met (the " **Amendment Effective Date** "):

(a) the Agent shall have received from the Borrower and each Continuing Lender and Lenders constituting Required Lenders a counterpart hereof signed by such party or facsimile or other written confirmation (in form satisfactory to the Agent) that such party has signed a counterpart hereof;

(b) the Agent shall have received a duly executed revised Note for the account of each Lender requesting delivery of such Note pursuant to Section 2.05 of the Credit Agreement;

(c) the Agent shall have received satisfactory opinions of counsel for the Borrower, dated the Amendment Effective Date;

(d) the Agent shall have received a certificate dated the Amendment Effective Date signed on behalf of the Borrower by the Chairman of the Board, the President, any Vice President, the Treasurer or the Assistant Treasurer of the Borrower stating that (A) on the Amendment Effective Date and after giving effect to this Amendment, no Default shall have occurred and be continuing and (B) the representations and warranties of the Borrower contained in the Credit Agreement after giving effect to this Amendment are true and correct on and as of the Amendment Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they were true and correct as of such earlier date;

(e) the Agent shall have received (i) a certificate of the Secretary of State of the Commonwealth of Kentucky and a certificate of the Secretary of State of the Commonwealth of Virginia, each dated as of a recent date, as to the good standing of the Borrower and (ii) a certificate of the Secretary or an Assistant Secretary of the Borrower dated the Amendment Effective Date and certifying (A) that attached thereto is a true, correct and complete copy of (x) the Borrower's articles of incorporation certified by the Secretary of State of the Commonwealth of Kentucky and the Secretary of State of the Commonwealth of Virginia and (y) the bylaws of the Borrower, (B) as to the absence of dissolution or liquidation proceedings by or against the Borrower, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of this Amendment and each other document delivered in connection herewith and that such resolutions have not been amended and are in full force and effect on the date of such certificate and (D) as to the incumbency and specimen signatures of each officer of the Borrower executing this Amendment or any other document delivered in connection herewith;

(f) all necessary governmental (domestic or foreign), regulatory and third party approvals, including, without limitation, the orders of the KPSC, TRA, VSCC and any required approvals of the Federal Energy Regulatory Commission, authorizing borrowings hereunder in connection with the transactions contemplated by this Amendment and the other Loan Documents shall have been obtained and remain in full force and effect, in each case without any action being taken by any competent authority which could restrain or prevent such transaction or impose, in the reasonable judgment of the Agent, materially adverse conditions upon the consummation of such transactions; provided that any such approvals with respect to elections by the Borrower to increase the Commitment as contemplated by Section 2.19 of the Credit Agreement need not be obtained or provided until the Borrower makes any such election;

(g) there shall be no outstanding Loans; and

(h) the Agent shall have received all costs, fees and expenses due to the Agent, the Joint Lead Arrangers (as such term is defined in the Commitment Letter) and the Lenders.

SECTION 12 . *Miscellaneous* . This Amendment shall constitute a Loan Document for all purposes of the Credit Agreement and the other Loan Documents. The provisions of this Amendment are deemed incorporated into the Credit Agreement as if fully set forth therein. The Borrower shall pay all reasonable out-of-pocket costs and expenses of the Agent incurred in connection with the negotiation, preparation and execution of this Amendment and the transactions contemplated hereby.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

KENTUCKY UTILITIES COMPANY
By: /s/ Daniel K. Arbough
Name: Daniel K. Arbough
Title: Treasurer

[Signature Page to KU – Amendment]

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Agent

By: /s/ Keith Luettel

Name: Keith Luettel

Title: Vice President

[Signature Page to KU – Amendment]

BANK OF AMERICA, N.A.

By: /s/ Michael Mason

Name: Michael Mason

Title: Director

[Signature Page to KU – Amendment]

THE ROYAL BANK OF SCOTLAND PLC

By: /s/ Andrew N Taylor

Name: Andrew N Taylor

Title: Vice President

[Signature Page to KU – Amendment]

CREDIT SUISSE AG, Cayman Islands Branch

By: /s/ Mikhail Faybusovich
Name: Mikhail Faybusovich
Title: Director

By: /s/ Vipul Dhadda
Name: Vipul Dhadda
Title: Associate

[Signature Page to KU – Amendment]

THE BANK OF NOVA SCOTIA

By: /s/ Thane Rattew

Name: Thane Rattew

Title: Managing Director

[Signature Page to KU – Amendment]

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.

By: /s/ Bradford Joyce

Name: Bradford Joyce

Title: Director

[Signature Page to KU – Amendment]

UNION BANK, N.A.

By: /s/ Michael Agrimis

Name: Michael Agrimis

Title: Vice President

[Signature Page to KU – Amendment]

BARCLAYS BANK PLC

By: /s/ Michael Mozer

Name: Michael Mozer

Title: Vice President

[Signature Page to KU – Amendment]

BNP PARIBAS

By: /s/ Francis DeLaney

Name: Francis DeLaney

Title: Managing Director

By: /s/ Pasquale Perraglia

Name: Pasquale Perraglia

Title: Vice President

[Signature Page to KU – Amendment]

CITIBANK, N.A.

By: /s/ Anita J. Brickell

Name: Anita J. Brickell

Title: Vice President

[Signature Page to KU – Amendment]

JPMORGAN CHASE BANK, N.A.

By: /s/ Juan Javellana

Name: Juan Javellana

Title: Executive Director

[Signature Page to KU – Amendment]

MORGAN STANLEY BANK, N.A.

By: /s/ Michael King

Name: Michael King

Title: Authorized Signatory

[Signature Page to KU – Amendment]

ROYAL BANK OF CANADA

By: /s/ Patrick Shields

Name: Patrick Shields

Title: Authorized Signatory

[Signature Page to KU – Amendment]

UBS LOAN FINANCE LLC

By: /s/ Irja R. Otsa

Name: Irja R. Otsa

Title: Associate Director

By: /s/ Mary E. Evans

Name: Mary E. Evans

Title: Associate Director

[Signature Page to KU – Amendment]

GOLDMAN SACHS BANK USA

By: /s/ Mark Walton

Name: Mark Walton

Title: Authorized Signatory

[Signature Page to KU – Amendment]

CREDIT AGRICOLE CORPORATE AND INVESTMENT BANK

By: /s/ Dixon Schultz
Name: Dixon Schultz
Title: Managing Director

By: /s/ Sharada Manne
Name: Sharada Manne
Title: Director

[Signature Page to KU – Amendment]

DEUTSCHE BANK AG NEW YORK BRANCH

By: /s/ Ming K. Chu

Name: Ming K. Chu

Title: Vice President

By: /s/ Virginia Cosenza

Name: Virginia Cosenza

Title: Vice President

[Signature Page to KU – Amendment]

KEYBANK NATIONAL ASSOCIATION

By: /s/ Craig A. Hanselman

Name: Craig A. Hanselman

Title: Vice President

[Signature Page to KU – Amendment]

LLOYDS TSB BANK PLC

By: /s/ Windsor R. Davies

Name: Windsor R. Davies

Title: Managing Director

By: /s/ Charles Foster

Name: Charles Foster

Title: Managing Director

[Signature Page to KU – Amendment]

U.S. BANK NATIONAL ASSOCIATION

By: /s/ J. James Kim

Name: J. James Kim

Title: Vice President

[Signature Page to KU – Amendment]

BAYERISCHE LANDESBANK, NEW YORK BRANCH

By: /s/ Rolf Siebert
Name: Rolf Siebert
Title: Senior Vice President

By: /s/ Gina Sandella
Name: Gina Sandella
Title: Vice President

[Signature Page to KU – Amendment]

BANCO BILBAO VIZCAYA ARGENTARIA S.A. – NEW YORK BRANCO

By: /s/ Michael Oka

Name: Michael Oka

Title: Executive Director

By: /s/ Nietzsche Rodricks

Name: Nietzsche Rodricks

Title: Executive Director

[Signature Page to KU – Amendment]

THE BANK OF NEW YORK MELLON

By: /s/ John N. Watt

Name: John N. Watt

Title: Vice President

[Signature Page to KU – Amendment]

MIZUHO CORPORATE BANK, LTD.

By: /s/ Raymond Ventura

Name: Raymond Ventura

Title: Deputy General Manager

[Signature Page to KU – Amendment]

SOVEREIGN BANK

By: /s/ Robert D. Lanigan

Name: Robert D. Lanigan

Title: SVP

[Signature Page to KU – Amendment]

SUNTRUST BANK

By: /s/ Andrew Johnson

Name: Andrew Johnson

Title: Director

[Signature Page to KU – Amendment]

CIBC INC.

By: /s/ Josh Hogarth
Name: Josh Hogarth
Title: Director

By: /s/ Eoin Roche
Name: Eoin Roche
Title: Executive Director

[Signature Page to KU – Amendment]

FIFTH THIRD BANK

By: /s/ Randolph J. Stierer

Name: Randolph J. Stierer

Title: Vice President

[Signature Page to KU – Amendment]

PNC BANK, NATIONAL ASSOCIATION

By: /s/ Edward M. Tessalone

Name: Edward M. Tessalone

Title: Senior Vice President

[Signature Page to KU – Amendment]

SUMITOMO MITSUI BANKING CORPORATION

By: /s/ Masakazu Hasegawa

Name: Masakazu Hasegawa

Title: Managing Director

[Signature Page to KU – Amendment]

THE NORTHERN TRUST COMPANY

By: /s/ Peter J. Hallan

Name: Peter J. Hallan

Title: Vice President

[Signature Page to KU – Amendment]

WING LUNG BANK LTD. LOS ANGELES BRANCH

By: /s/ Irene Kwan

Name: Irene Kwan

Title: VP/ Deputy Branch Manager

[Signature Page to KU – Amendment]

Schedule 1

Commitment Appendix

Lender	**Revolving Commitment**
Wells Fargo Bank, National Association	$20,500,000.00
Bank of America, N.A.	20,500,000.00
The Royal Bank of Scotland plc	20,500,000.00
Credit Suisse AG, Cayman Islands Branch	19,000,000.00
The Bank of Nova Scotia	19,000,000.00
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	9,500,000.00
Union Bank, N.A.	9,500,000.00
Barclays Bank PLC	19,000,000.00
BNP Paribas	19,000,000.00
Citibank, N.A..	19,000,000.00
JPMorgan Chase Bank, N.A.	19,000,000.00
Morgan Stanley Bank, N.A.	19,000,000.00
Royal Bank of Canada	19,000,000.00
UBS Loan Finance LLC	19,000,000.00
Goldman Sachs Bank USA	19,000,000.00
Credit Agricole Corporate & Investment Bank	14,000,000.00
Deutsche Bank AG New York Branch	14,000,000.00
KeyBank National Association	14,000,000.00
Lloyds TSB Bank plc	14,000,000.00
U.S. Bank National Association	14,000,000.00
Bayerische Landesbank, New York Branch	6,800,000.00
Banco Bilbao Vizcaya Argentaria S.A.	6,800,000.00
The Bank of New York Mellon	6,800,000.00
Mizuho Corporate Bank, Ltd.	6,800,000.00
Sovereign Bank	6,800,000.00
SunTrust Bank	6,800,000.00
CIBC Inc.	4,000,000.00
Fifth Third Bank	4,000,000.00
PNC Bank, National Association	4,000,000.00
Sumitomo Mitsui Banking Corporation	4,000,000.00
The Northern Trust Company	2,700,000.00
Wing Lung Bank Ltd. Los Angeles Branch	0.00
Total	**$400,000,000.00**

KENTUCKY UTILITIES CO

FORM 8-K
(Current report filing)

Filed 09/19/11 for the Period Ending 09/15/11

Address	ONE QUALITY ST LEXINGTON, KY 40507
Telephone	6062552100
CIK	0000055387
SIC Code	4911 - Electric Services
Fiscal Year	12/29

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 15, 2011

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
1-11459	**PPL Corporation** (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
333-173665	**LG&E and KU Energy LLC** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	**Louisville Gas and Electric Company** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	**Kentucky Utilities Company** (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

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

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 8 - Other Events

Item 8.01 Other Events

On September 15, 2011, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU", and together with LG&E, the "Companies") issued a press release announcing that they anticipate retiring three older-coal-fired electric generating stations and have commenced certain steps to acquire additional generating units to replace power currently provided by the coal-fired plants.

The Companies filed a certificate of public convenience and necessity with the Kentucky Public Service Commission ("KPSC") on September 15, 2011, requesting approval to build a 640-megawatt, natural gas-fired combined-cycle gas turbine ("NGCC") at the existing Cane Run station site. KU will own a 78% undivided interest, and LG&E will own a 22% undivided interest, in the new NGCC. In addition, the Companies also requested approval to purchase three additional natural gas combustion turbines from Bluegrass Generation Company, L.L.C. that are expected to provide up to 495 megawatts ("MW") of peak generation supply (as defined below, the “Bluegrass Plant”). In conjunction with these matters, at the end of 2015 the Companies plan to retire three coal-fired generating units at LG&E's Cane Run station and also coal-fired generating units at KU's Tyrone and Green River stations. These generating stations represent approximately 797 MW of aggregate summer capacity.

<u>Plant Retirement and NGCC Construction</u>

The Environmental Protection Agency has issued rules that would require the Companies to implement new technologies to reduce the amount of sulfur dioxide, nitrogen oxide, mercury and other particulates emitted from coal-fired plants. In view of the cost to retrofit aging plants, the Companies have considered the most cost-effective options to replace energy that is currently delivered by these older coal-fired generating units. In connection with the filing of their 2011 Integrated Resource Plan with the KPSC in April 2011, the Companies determined that building the NGCC at the existing Cane Run station site would be the most cost-effective method to replace retired generation. The Companies anticipate that the NGCC construction and Bluegrass Plant acquisition could require up to $800 million in capital costs. The Companies' previously disclosed estimates of future capital expenditures included these estimated costs. Formal requests for recovery of the costs associated with NGCC were not included in the Companies' September 15, 2011 filing with the KPSC, but are expected to be included in a future base rate case filing.

Construction of the NGCC is subject to various regulatory approvals, including approval by the KPSC and receipt of certain environmental and construction-related permits. The Companies also anticipate filing an application to the Virginia State Corporation Commission ("VSCC") in connection with the new NGCC plant construction. Once all approvals are received, construction on the NGCC at Cane Run will begin in 2012 and is expected to be complete by 2016.

<u>Bluegrass Plant Acquisition</u>

On September 15, 2011, the Companies entered into an Asset Purchase Agreement ("APA") with Bluegrass Generation Company, L.L.C. for the purchase of three existing natural gas simple cycle combustion turbine facilities in LaGrange, Kentucky, aggregating approximately 495 MW, plus limited associated contractual arrangements required for operation of the plant (collectively, the "Bluegrass Plant"), for a purchase price of approximately $110 million. Pursuant to the APA, the Companies will jointly acquire the Bluegrass Plant as tenants in common, with LG&E as owner of a 69% undivided interest, and KU as owner of a 31% undivided interest, in the purchased assets. The purchase is subject to receipt of approvals from the KPSC, the VSCC, the Federal Energy Regulatory Commission, certain permit assignments or local approvals, and other conditions. Either party can terminate the APA should a closing of the purchase transaction fail to have occurred by June 30, 2012.

Statements in this report and the accompanying press release, including statements with respect to future events and their timing, including the proposed transactions contemplated in the Companies’ regulatory filing, such as the new NGCC construction, the retirement of older plants or the Bluegrass Plant acquisition, as well as other statements as to future costs or expenses, asset acquisition or retirement, regulation, corporate strategy and generating capacity and performance, are “forward-looking statements” within the meaning of the federal securities laws. Although the Companies believe that the expectations and assumptions reflected in these forward-looking statements are reasonable, these expectations, assumptions and statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results discussed in the statements. The following are among the important factors that could cause actual results to differ materially from the forward-looking statements: receipt of necessary government permits, approvals, rate relief and regulatory cost recovery; market demand and prices for electricity; market demand for and costs of construction, materials, equipment and labor; environmental conditions and requirements and the related costs of compliance; political, regulatory or economic conditions in states, regions or countries where the Companies conduct business; and new state, federal or foreign legislation, including new tax or environmental legislation or regulation. Any such forward-looking statements should be considered in light of such important factors and in conjunction with PPL Corporation’s Form 10-K, each Company’s respective Form S-4 and other reports on file with the Securities and Exchange Commission.

Section 9 - Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

99.1 - Press release dated September 15, 2011 of Louisville Gas and Electric Company and Kentucky Utilities Company.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

PPL CORPORATION

By: /s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller

LG&E AND KU ENERGY LLC

By: /s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

KENTUCKY UTILITIES COMPANY

By: /s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer

Dated: September 19, 2011

Media Contact:

Chris Whelan
T (502) 627-4999
F (502) 627-3629

Investor Relations Contact:

Joe Bergstein
T (610) 774-5609

September 15, 2011

**EPA Changes Force LG&E, KU to Retire Three Coal-fired Power Plants,
Company to Build Natural Gas-Fired Generation at Cane Run,
Purchase Peaking Units**

(LOUISVILLE, Ky.) – Louisville Gas and Electric Company and Kentucky Utilities Company announced today that they will be forced to retire three older coal-fired electric generating stations to meet new, stricter federal Environmental Protection Agency's regulations.

In a certificate of public convenience and necessity filing with the Kentucky Public Service Commission today, the companies requested approval to build a 640-megawatt, natural gas combined cycle generating unit (NGCC) at the existing Cane Run site in southwestern Louisville. In addition, the companies requested approval to purchase from Bluegrass Generation Company three additional simple-cycle natural gas combustion turbines located in LaGrange that will provide up to 495 megawatts of peak generation supply. Today's filings, and the planned retirements of Cane Run, Tyrone and Green River, are the results of the ongoing EPA regulation analysis and last December's Request for Proposal submittals.

As outlined in the companies' 2011 Integrated Resource Plan, the NGCC is the least-cost method of generation. Consistent with previous disclosures, these two actions for replacement generation are expected to cost up to $800 million, of which approximately $110 million is for the Bluegrass plant. Recovery of the additional costs is not part of today's filing, but will be included in a future base rate case filing. While preliminary evaluations had estimated increases of 5 percent for LG&E and 2 percent for KU, based on the respective ownership allocations, it is now expected that LG&E customers will not experience an increase in rates due to this construction, while KU customers will see about a 4 percent increase.

"While we have had a long history of being an environmental leader in the industry, the ever more stringent environmental regulations have forced us to take a hard look at how we generate electricity, how we will comply with the new federal EPA requirements, and how to best limit the potential cost increase on our customers and the community," said Paul W. Thompson, senior vice president of Energy Services for LG&E and KU. “The bottom-line is that achieving environmental compliance under the EPA’s present fragmented framework will have a significant impact on our company, our customers and our Commonwealth.”

While fewer employees will ultimately be needed to run the NGCC plant, the company is still determining the full extent of the workforce impact. Cane Run and Green River coal units will need to remain operational until the replacement generation and associated transmission projects are completed. As we have done in the past, the companies will look for opportunities to utilize as many existing employees as possible.

Currently, about 97 percent of the electricity in the companies’ generation fleet is produced by coal. After the construction of the NGCC and plant retirements, LG&E and KU will remain 90 percent coal-fired. The EPA’s new regulations will require many of the companies’ existing coal-fired plants to implement additional technologies, controls and processes no later than 2016 in order to maintain compliance.

The financial impact of these rules will be especially significant in Kentucky, since more than 95 percent of Kentucky’s electricity is being generated by coal. The companies estimate that complying with the new federal requirements under the clean air regulations – through upgrades and new construction -- could cost approximately $4 billion in capital expenditures by 2019, with over $3 billion of that amount incurred by the end of 2016.

“Given the enormous cost and strict compliance timetable required to retrofit some of our aging generation units with additional technology, we’ve had to explore a lower-cost option that results in retiring older coal-fired generating units and replacing them with natural gas units,” added Thompson.

The companies filed an application with the Louisville Metro Air Pollution Control District for an air permit on June 13 and hope to have approval by spring of 2012. They are requesting that the KPSC rule on the CPCN by April. Once all approvals are received, construction on a NGCC at Cane Run will begin in 2012 and is expected to be complete by 2016, replacing coal generation at that facility with natural gas. The three peaking units are expected to be available for use during next summer’s cooling season. This transaction is also subject to various other regulatory approvals, including the Federal Energy Regulatory Commission and the Virginia State Corporation Commission.

###

Louisville Gas and Electric Company and Kentucky Utilities Company, part of the PPL Corporation (NYSE: PPL) family of companies, are regulated utilities that serve a total of 1.2 million customers and have consistently ranked among the best companies for customer service in the United States. LG&E serves 321,000 natural gas and 397,000 electric customers in Louisville and 16 surrounding counties. Kentucky Utilities serves 546,000 customers in 77 Kentucky counties and five counties in Virginia. More information is available at www.lge-ku.com and www.pplweb.com .

KU®
an e·on company

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RECEIVED
FEB 05 2010
PUBLIC SERVICE
COMMISSION

Kentucky Utilities Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.eon-us.com

Lonnie E. Bellar
Vice President
T 502-627-4830
F 502-217-2109
lonnie.bellar@eon-us.com

February 5, 2010

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to January 2010, KU believes it would have filed a Form 8-K for the following events:

- KU filed an application requesting an increase in base electric rates in Kentucky

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

an e·on company

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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MAR 08 2010

PUBLIC SERVICE COMMISSION

Kentucky Utilities Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.eon-us.com

Lonnie E. Bellar
Vice President
T 502-627-4830
F 502-217-2109
lonnie.bellar@eon-us.com

March 5, 2010

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to February 2010, KU believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

an e·on company

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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PUBLIC SERVICE COMMISSION

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www.eon-us.com

Lonnie E. Bellar
Vice President
T 502-627-4830
F 502-217-2109
lonnie.bellar@eon-us.com

April 12, 2010

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to March 2010, KU believes it would have filed a Form 8-K for the following events:

- A March 2010 order of the Virginia State Corporation Commission approving the stipulation and settlement of KU's rate case for Virginia customers.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

KU®
an e·on company

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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PUBLIC SERVICE
COMMISSION

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Louisville, Kentucky 40232
www.eon-us.com

Lonnie E. Bellar
Vice President
T 502-627-4830
F 502-217-2109
lonnie.bellar@eon-us.com

May 7, 2010

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to April 2010, KU believes it would have filed a Form 8-K for the following events:

- The definitive agreement among E.ON AG, E.ON US Investments Corp. and PPL Corporation for the sale of E.ON U.S. LLC, which includes Kentucky Utilities Company, and associated transaction matters.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

KU
an e·on company

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JUN 10 2010

PUBLIC SERVICE
COMMISSION

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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State Regulation and Rates
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Lonnie E. Bellar
Vice President
T 502-627-4830
F 502-217-2109
lonnie.bellar@eon-us.com

June 9, 2010

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to May 2010, KU believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

KU
an e·on company

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RECEIVED

JUL 09 2010

PUBLIC SERVICE COMMISSION

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www.eon-us.com

Lonnie E. Bellar
Vice President
T 502-627-4830
F 502-217-2109
lonnie.bellar@eon-us.com

July 9, 2010

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to June 2010, KU believes it would have filed a Form 8-K for the following event:

- The announcement and filing of the proposed stipulation or settlement agreed upon among KU and substantially all intervenors in the rate case proceedings.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

an e·on company

Kentucky Utilities Company
State Regulation and Rates
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Lonnie E. Bellar
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Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RECEIVED
AUG 06 2010
PUBLIC SERVICE COMMISSION

August 6, 2010

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to July 2010, KU believes it would have filed a Form 8-K for the following event:

- Issuance of the Commission's Order approving the Stipulation and Recommendation in KU's base electric rate case.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

an e·on company

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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SEP 13 2010

PUBLIC SERVICE COMMISSION

Kentucky Utilities Company
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www.eon-us.com

Lonnie E. Bellar
Vice President
T 502-627-4830
F 502-217-2109
lonnie.bellar@eon-us.com

September 10, 2010

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to August 2010, KU believes it would have filed a Form 8-K for the following event:

- The filing of the settlement agreement among the applicants and intervening parties in the Commission's change-of-control proceeding relating to PPL Corporation's proposed acquisition of E.ON US LLC.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

KU

an e·on company

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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OCT 08 2010

PUBLIC SERVICE COMMISSION

Kentucky Utilities Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.eon-us.com

Lonnie E. Bellar
Vice President
T 502-627-4830
F 502-217-2109
lonnie.bellar@eon-us.com

October 8, 2010

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to September 2010, KU believes it would have filed a Form 8-K for the following event:

- The Commission's approval of the transfer of ownership of LG&E and KU via the acquisition of E.ON US LLC by PPL Corporation.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

KU
an e·on company

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RECEIVED

NOV 08 2010

PUBLIC SERVICE
COMMISSION

Kentucky Utilities Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.lge-ku.com

Lonnie E. Bellar
Vice President
T 502-627-4830
F 502-217-2109
lonnie.bellar@lge-ku.com

November 5, 2010

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to October 2010, KU believes it would have filed a Form 8-K for the following event:

- Approved refinancing transactions collateralizing existing series of previously unsecured tax exempt pollution control bonds by implementation of a first mortgage bond indenture and issuance of series of first mortgage bonds there under as collateral for the tax-exempt bondholders.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

"In November 2010, E.ON U.S. LLC was renamed LG&E and KU Energy LLC."

an e·on company

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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Lonnie E. Bellar
Vice President
T 502-627-4830
F 502-217-2109
lonnie.bellar@lge-ku.com

December 8, 2010

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt. However, in connection with the recently issued First Mortgage Bonds, referenced below, KU anticipates filing registration statements with the Securities and Exchange Commission ("SEC") during mid-2011. Upon such statements being declared effective by the SEC, KU would thereafter resume periodic SEC reporting, including Form 8-K's.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to November 2010, KU believes it would have filed a Form 8-K for the following events:

- The official closing of the transfer of ownership of KU via the acquisition of E.ON US LLC by PPL Corporation
- Issuance of $1.5 billion of First Mortgage Bonds
- Issuance of 21 promissory notes for $1.331 billion to PPL Investment Corporation (which were repaid with proceeds of the First Mortgage Bonds listed above) to replace prior notes from Fidelia Corporation
- Entering into a multi-year revolving credit facility totaling $400 million
- Entering into employment-related arrangements with KU management in connection with the PPL transaction
- Appointments to the KU board associated with the PPL transaction

 "In November 2010, E.ON U.S. LLC was renamed LG&E and KU Energy LLC."

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

 "In November 2010, E.ON U.S. LLC was renamed LG&E and KU Energy LLC."

a PPL company

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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State Regulation and Rates
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Lonnie E. Bellar
Vice President
T 502-627-4830
F 502-217-2109
lonnie.bellar@lge-ku.com

January 10, 2011

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

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JAN 11 2011
PUBLIC SERVICE COMMISSION

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt. However, in connection with the issuance of First Mortgage Bonds on November 16, 2010, KU anticipates filing registration statements with the Securities and Exchange Commission ("SEC") during mid-2011. Upon such statements being declared effective by the SEC, KU would thereafter resume periodic SEC reporting, including Form 8-K's.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to December 2010, KU believes it would have filed a Form 8-K for the following events:

- Issuance of four letters-of-credit under the previously-reported $400 million revolving credit facility, which letters-of-credit provide collateral support to certain existing KU pollution control bond series and were in replacement of parallel letters-of-credit under a prior facility being terminated
- Selection of Ernst and Young LLP as independent auditors for the Company for 2011

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

a PPL company

Kentucky Utilities Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.lge-ku.com

Lonnie E. Bellar
Vice President
T 502-627-4830
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lonnie.bellar@lge-ku.com

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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FEB 10 2011

PUBLIC SERVICE
COMMISSION

February 9, 2011

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt. However, in connection with the issuance of First Mortgage Bonds on November 16, 2010, KU anticipates filing registration statements with the Securities and Exchange Commission ("SEC") during mid-2011. Upon such statements being declared effective by the SEC, KU would thereafter resume periodic SEC reporting, including Form 8-K's.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to January 2011, KU believes it would have filed a Form 8-K for the following events:

- Submission of unaudited pro-forma financial information, under Securities and Exchange Commission rules, giving effect to certain pro-forma accounting entries, financial transactions or other events relating to the acquisition.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

KU®

a PPL company

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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MAR 10 2011
PUBLIC SERVICE COMMISSION

Kentucky Utilities Company
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Lonnie E. Bellar
Vice President
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lonnie.bellar@lge-ku.com

March 9, 2011

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt. However, in connection with the issuance of First Mortgage Bonds on November 16, 2010, KU anticipates filing registration statements with the Securities and Exchange Commission ("SEC") during mid-2011. Upon such statements being declared effective by the SEC, KU would thereafter resume periodic SEC reporting, including Form 8-K's.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to February 2011, KU believes it would have filed a Form 8-K for the following event:

- KU previously notified the Commission in its January 10, 2011 letter of the transition to Ernst and Young LLP ("E&Y") as auditors. During February 2011, a subsequent Form 8-K/A would have been filed in connection with PPL Corporation's audit committee appointment of E&Y as independent accountant for 2011, including for KU.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

a PPL company

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PUBLIC SERVICE COMMISSION

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lonnie.bellar@lge-ku.com

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

April 7, 2011

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt. However, in connection with the issuance of First Mortgage Bonds on November 16, 2010, KU anticipates filing registration statements with the Securities and Exchange Commission ("SEC") during mid-2011. Upon such statements being declared effective by the SEC, KU would thereafter resume periodic SEC reporting, including Form 8-K's.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to March 2011, KU believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

a PPL company

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State Regulation and Rates
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Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

May 5, 2011

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt. However, in connection with the issuance of First Mortgage Bonds on November 16, 2010, KU anticipates filing registration statements with the Securities and Exchange Commission ("SEC") during mid-2011. Upon such statements being declared effective by the SEC, KU would thereafter resume periodic SEC reporting, including Form 8-K's.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to April 2011, KU believes it would have filed a Form 8-K for the following events:

- KU filed an application with the Commonwealth of Virginia State Corporation Commission to adjust electric base rates in Virginia
- Establishment by KU of a new $198 million letter of credit facility in connection with credit support for outstanding KU pollution control bonds in substitution for an existing facility and issuance of four letters of credit in replacement of previously issued letters of credit

Mr. Jeff DeRouen
May 5, 2011

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

a PPL company

Kentucky Utilities Company
State Regulation and Rates
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www.lge-ku.com

Lonnie E. Bellar
Vice President
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lonnie.bellar@lge-ku.com

Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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JUN 08 2011

PUBLIC SERVICE COMMISSION

June 7, 2011

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Mr. DeRouen:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to May 2011, KU believes it would have filed a Form 8-K for the following events:

- KU filed a notice of intent for an amended environmental compliance plan, a revised surcharge to recover environmental costs, and Certificates of Public Convenience and Necessity for the construction of environmental equipment

Please note that, effective June 1, 2011, KU's Registration Statement on Form S-4 was declared effective by the SEC. Therefore, KU has now commenced SEC periodic reporting obligations under the Securities Exchange Act of 1934.

Therefore, this letter will be the final letter of this type delivered to the Commission under this docket. In the future, KU will annually submit copies of relevant SEC filings, including Form 8-K's, pursuant to the requirements of Orders 10296, 89-374, 97-300, 2000-095, 2001-00104, and 2010-00104.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

KENTUCKY UTILITIES CO

FORM 10-Q
(Quarterly Report)

Filed 05/07/12 for the Period Ending 03/31/12

Address	ONE QUALITY ST LEXINGTON, KY 40507
Telephone	6062552100
CIK	0000055387
SIC Code	4911 - Electric Services
Fiscal Year	12/29

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended March 31, 2012

OR

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

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
1-11459	**PPL Corporation** (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-32944	**PPL Energy Supply, LLC** (Exact name of Registrant as specified in its charter) (Delaware) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-3074920
1-905	**PPL Electric Utilities Corporation** (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	**LG&E and KU Energy LLC** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	**Louisville Gas and Electric Company** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	**Kentucky Utilities Company** (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

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

PPL Corporation	Yes X	No ___
PPL Energy Supply, LLC	Yes X	No ___
PPL Electric Utilities Corporation	Yes X	No ___
LG&E and KU Energy LLC	Yes X	No ___
Louisville Gas and Electric Company	Yes X	No ___
Kentucky Utilities Company	Yes X	No ___

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

PPL Corporation	Yes X	No ___
PPL Energy Supply, LLC	Yes X	No ___
PPL Electric Utilities Corporation	Yes X	No ___
LG&E and KU Energy LLC	Yes X	No ___
Louisville Gas and Electric Company	Yes X	No ___
Kentucky Utilities Company	Yes X	No ___

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

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
PPL Corporation	[X]	[ ]	[ ]	[ ]
PPL Energy Supply, LLC	[ ]	[ ]	[X]	[ ]
PPL Electric Utilities Corporation	[ ]	[ ]	[X]	[ ]
LG&E and KU Energy LLC	[ ]	[ ]	[X]	[ ]
Louisville Gas and Electric Company	[ ]	[ ]	[X]	[ ]
Kentucky Utilities Company	[ ]	[ ]	[X]	[ ]

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

PPL Corporation	Yes ___	No X
PPL Energy Supply, LLC	Yes ___	No X
PPL Electric Utilities Corporation	Yes ___	No X
LG&E and KU Energy LLC	Yes ___	No X
Louisville Gas and Electric Company	Yes ___	No X
Kentucky Utilities Company	Yes ___	No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PPL Corporation	Common stock, $.01 par value, 580,021,834 shares outstanding at April 30, 2012.
PPL Energy Supply, LLC	PPL Corporation indirectly holds all of the membership interests in PPL Energy Supply, LLC.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at April 30, 2012.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at April 30, 2012.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at April 30, 2012.

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

PPL CORPORATION
PPL ENERGY SUPPLY, LLC
PPL ELECTRIC UTILITIES CORPORATION
LG&E AND KU ENERGY LLC
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2012

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This combined Form 10-Q is separately filed by the following individual registrants: PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual registrant is filed by such registrant solely on its own behalf, and no registrant makes any representation as to information relating to any other registrant, except that information under "Forward-Looking Information" relating to PPL Corporation subsidiaries is also attributed to PPL Corporation and information relating to the subsidiaries of LG&E and KU Energy LLC is also attributed to LG&E and KU Energy LLC.

GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its current and former subsidiaries

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

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

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

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

LKS - LG&E and KU Services Company, a subsidiary of LKE that provides services for LKE and its subsidiaries. The subsidiary was acquired by PPL through the acquisition of LKE in November 2010.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

WPD - refers to PPL WW and PPL WEM and their subsidiaries.

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

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

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

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

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

WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-utility generating plants in western Kentucky until July 2009. The subsidiary was acquired by PPL through the acquisition of LKE in November 2010.

Other terms and abbreviations

£ - British pound sterling.

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

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

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

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

2011 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2011.

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

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

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

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

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

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

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

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

Bcf - billion cubic feet.

Bluegrass CTs - three natural gas combustion turbines owned by Bluegrass Generation. LG&E and KU entered into an Asset Purchase Agreement with Bluegrass Generation for the purchase of these combustion turbines, subject to certain conditions including receipt of applicable regulatory approvals and clearances.

Bluegrass Generation - Bluegrass Generation Company, L.L.C., an exempt wholesale electricity generator in LaGrange, Kentucky.

BREC - Big Rivers Electric Corporation, a power-generating rural electric cooperative in western Kentucky.

CAIR - t he EPA's Clean Air Interstate Rule.

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

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

CPCN - Certificate of Public Convenience and Necessity. Authority granted by the KPSC pursuant to Kentucky Revised Statute 278.020 to provide utility service to or for the public or the construction of any plant, equipment, property or facility for furnishing of utility service to the public.

CSAPR - Cross-State Air Pollution Rule, the CSAPR implements Clean Air Act requirements concerning the transport of air pollution from power plants across state boundaries. The CSAPR replaces the 2005 CAIR, which the U.S. Court of Appeals for the D.C. Circuit ordered the EPA to revise in 2008. The court has granted a stay allowing CAIR to remain in place pending a ruling on the legal challenges to the CSAPR.

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

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

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

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

DPCR4 - Distribution Price Control Review 4, the U.K. 5-year rate review period applicable to WPD that commenced April 1, 2005.

DRIP - Dividend Reinvestment and Direct Stock Purchase Plan.

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM plans proposed by any utility under its jurisdiction. Proposed DSM mechanisms may seek full recovery of DSM programs and revenues lost by implementing those programs and/or incentives designed to provide financial rewards to the utility for implementing cost-effective DSM programs. The cost of such programs shall be assigned only to the class or classes of customers which benefit from the programs.

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

E.ON AG - a German corporation and the parent of E.ON UK plc, the former parent of Central Networks, and the indirect parent of E.ON US Investments Corp., the former parent of LKE.

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

EPS - earnings per share.

Equity Units - refers collectively to the 2011 and 2010 Equity Units.

ESOP - Employee Stock Ownership Plan.

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

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

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

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

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

GAAP - Generally Accepted Accounting Principles in the U.S.

GBP - British pound sterling.

GHG - greenhouse gas(es).

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

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

Ironwood Acquisition - In April 2012, PPL Ironwood Holdings, LLC, an indirect, wholly owned subsidiary of PPL Energy Supply, completed the acquisition from a subsidiary of The AES Corporation of all of the equity interests of AES Ironwood, L.L.C. (subsequently renamed PPL Ironwood, LLC) and AES Prescott, L.L.C. (subsequently renamed PPL Prescott, LLC), which own and operate, respectively, the Ironwood Facility.

Ironwood Facility - a natural gas-fired power plant in Lebanon, Pennsylvania with a summer rating of 657 MW.

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

ISO - Independent System Operator.

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

LIBOR - London Interbank Offered Rate.

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

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

MW - megawatt, one thousand kilowatts.

NDT - PPL Susquehanna's nuclear plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

NGCC - Natural gas-fired combined-cycle turbine.

NPDES - National Pollutant Discharge Elimination System.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception receive accrual accounting treatment.

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

OCI - other comprehensive income or loss.

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

Opacity - the degree to which emissions reduce the transmission of light and obscure the view of an object in the background. There are emission regulations that limit the opacity in power plant stack gas emissions.

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek plant in Ohio and the Clifty Creek plant in Indiana, with combined nameplate capacities of 2,390 MW.

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

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

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

PP&E - property, plant and equipment.

Predecessor - refers to the LKE, LG&E and KU pre-acquisition activity covering the time period prior to November 1, 2010.

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

Purchase Contract(s) - refers collectively to the 2010 and 2011 Purchase Contracts.

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

RECs - renewable energy credits.

Registrants - PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU, collectively.

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

Rev. Proc(s). - Revenue Procedure(s), an official published statement by the IRS of a matter of procedural importance to both taxpayers and the IRS concerning administration of the tax laws.

RMC - Risk Management Committee.

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

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

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

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

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

Securities Act of 1933 - the Securities Act of 1933, 15 U.S. Code, Sections 77a-77aa, as amended.

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

SMGT - Southern Montana Electric Generation & Transmission Cooperative, Inc., a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus expiring in June 2019.

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

Successor - refers to the LKE, LG&E and KU post-acquisition activity covering the time period after October 31, 2010.

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

TC2 - Trimble County Unit 2, a coal-fired plant located in Kentucky with a net summer capacity of 732 MW. LKE indirectly owns a 75% interest (consists of LG&E's 14.25% and KU's 60.75% interests) in TC2 or 549 MW of the capacity.

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

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

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

VIE - variable interest entity.

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

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

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

FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in each Registrant's 2011 Form 10-K and in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q report, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

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

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

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

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

PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, except share data)

	Three Months Ended March 31, 2012	2011
Operating Revenues		
Utility	**$ 1,714**	$ 1,536
Unregulated retail electric and gas	**223**	147
Wholesale energy marketing		
Realized	**1,208**	1,038
Unrealized economic activity (Note 14)	**852**	57
Net energy trading margins	**8**	11
Energy-related businesses	**107**	121
Total Operating Revenues	**4,112**	2,910
Operating Expenses		
Operation		
Fuel	**424**	475
Energy purchases		
Realized	**883**	671
Unrealized economic activity (Note 14)	**591**	(18)
Other operation and maintenance	**706**	583
Depreciation	**264**	208
Taxes, other than income	**91**	73
Energy-related businesses	**102**	113
Total Operating Expenses	**3,061**	2,105
Operating Income	**1,051**	805
Other Income (Expense) - net	**(17)**	(5)
Other-Than-Temporary Impairments		1
Interest Expense	**230**	174
Income from Continuing Operations Before Income Taxes	**804**	625
Income Taxes	**259**	223
Income from Continuing Operations After Income Taxes	**545**	402
Income (Loss) from Discontinued Operations (net of income taxes)		3
Net Income	**545**	405
Net Income Attributable to Noncontrolling Interests	**4**	4
Net Income Attributable to PPL Corporation	**$ 541**	$ 401
Amounts Attributable to PPL Corporation:		
Income from Continuing Operations After Income Taxes	**$ 541**	$ 398
Income (Loss) from Discontinued Operations (net of income taxes)		3
Net Income	**$ 541**	$ 401
Earnings Per Share of Common Stock:		
Income from Continuing Operations After Income Taxes Available to PPL Corporation Common Shareowners:		
Basic	**$ 0.93**	$ 0.82
Diluted	**$ 0.93**	$ 0.82
Net Income Available to PPL Corporation Common Shareowners:		
Basic	**$ 0.93**	$ 0.82
Diluted	**$ 0.93**	$ 0.82

Dividends Declared Per Share of Common Stock	**$ 0.360**	$ 0.350
Weighted-Average Shares of Common Stock Outstanding (in thousands)		
Basic	**579,041**	484,138
Diluted	**579,527**	484,345

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31, 2012	2011
Net income	**$ 545**	$ 405
Other comprehensive income (loss):		
Amounts arising during the period - gains (losses), net of tax (expense) benefit:		
Foreign currency translation adjustments, net of tax of $2, $1	**76**	67
Available-for-sale securities, net of tax of ($28), ($12)	**22**	12
Qualifying derivatives, net of tax of ($62), ($32)	**66**	37
Equity investees' other comprehensive income (loss), net of tax of $2, $0	**(4)**	(1)
Reclassifications to net income - (gains) losses, net of tax expense (benefit):		
Available-for-sale securities, net of tax of $2, $5	**(3)**	(7)
Qualifying derivatives, net of tax of $87, $51	**(122)**	(69)
Equity investees' other comprehensive (income) loss, net of tax of $0, $0		2
Defined benefit plans:		
Prior service costs, net of tax of ($1), ($2)	**3**	3
Net actuarial loss, net of tax of ($4), ($4)	**20**	11
Total other comprehensive income (loss) attributable to PPL Corporation	**58**	55
Comprehensive income (loss)	**603**	460
Comprehensive income attributable to noncontrolling interests	**4**	4
Comprehensive income (loss) attributable to PPL Corporation	**$ 599**	$ 456

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

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Cash Flows from Operating Activities		
Net income	**$ 545**	$ 405
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**264**	208
Amortization	**55**	47
Defined benefit plans - expense	**42**	39
Deferred income taxes and investment tax credits	**257**	204
Unrealized (gains) losses on derivatives, and other hedging activities	**(235)**	(96)
Other	**20**	10
Change in current assets and current liabilities		
Accounts receivable	**32**	(57)
Accounts payable	**(99)**	(112)
Unbilled revenues	**59**	199
Prepayments	**(100)**	(85)
Counterparty collateral	**65**	(195)
Taxes	**66**	10
Accrued interest	**37**	55
Other	**(45)**	(5)
Other operating activities		
Defined benefit plans - funding	**(208)**	(438)
Other assets	**(12)**	(4)
Other liabilities	**(15)**	11
Net cash provided by operating activities	**728**	196
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(682)**	(428)
Proceeds from the sale of certain non-core generation facilities		381
Purchases of nuclear plant decommissioning trust investments	**(38)**	(79)
Proceeds from the sale of nuclear plant decommissioning trust investments	**34**	75
Proceeds from the sale of other investments	**16**	163
Net (increase) decrease in restricted cash and cash equivalents	**(22)**	(7)
Other investing activities	**(19)**	(7)
Net cash provided by (used in) investing activities	**(711)**	98
Cash Flows from Financing Activities		
Issuance of common stock	**16**	16
Payment of common stock dividends	**(203)**	(170)
Net increase (decrease) in short-term debt	**93**	187
Other financing activities	**(30)**	(20)
Net cash provided by (used in) financing activities	**(124)**	13
Effect of Exchange Rates on Cash and Cash Equivalents	**8**	13
Net Increase (Decrease) in Cash and Cash Equivalents	**(99)**	320
Cash and Cash Equivalents at Beginning of Period	**1,202**	925
Cash and Cash Equivalents at End of Period	**$ 1,103**	$ 1,245

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

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

	March 31, 2012	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	$ **1,103**	$ 1,202
Short-term investments		16
Restricted cash and cash equivalents	**172**	152
Accounts receivable (less reserve: 2012, $69; 2011, $54)		
Customer	**723**	742
Other	**84**	85
Unbilled revenues	**774**	830
Fuel, materials and supplies	**669**	654
Prepayments	**261**	160
Price risk management assets	**3,230**	2,548
Regulatory assets	**15**	9
Other current assets	**31**	28
Total Current Assets	**7,062**	6,426
Investments		
Nuclear plant decommissioning trust funds	**693**	640
Other investments	**75**	78
Total Investments	**768**	718
Property, Plant and Equipment		
Regulated utility plant	**23,544**	22,994
Less: accumulated depreciation - regulated utility plant	**3,701**	3,534
Regulated utility plant, net	**19,843**	19,460
Non-regulated property, plant and equipment		
Generation	**10,536**	10,514
Nuclear fuel	**718**	658
Other	**661**	637
Less: accumulated depreciation - non-regulated property, plant and equipment	**5,758**	5,676
Non-regulated property, plant and equipment, net	**6,157**	6,133
Construction work in progress	**1,706**	1,673
Property, Plant and Equipment, net (a)	**27,706**	27,266
Other Noncurrent Assets		
Regulatory assets	**1,334**	1,349
Goodwill	**4,161**	4,114
Other intangibles (a)	**1,064**	1,065
Price risk management assets	**1,186**	920
Other noncurrent assets	**801**	790
Total Other Noncurrent Assets	**8,546**	8,238
Total Assets	$ **44,082**	$ 42,648

(a) At March 31, 2012 and December 31, 2011, includes $417 million and $416 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and $10 million and $11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

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

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

	March 31, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities		
Short-term debt	**$ 674**	$ 578
Accounts payable	**1,027**	1,214
Taxes	**132**	65
Interest	**326**	287
Dividends	**214**	207
Price risk management liabilities	**2,149**	1,570
Regulatory liabilities	**74**	73
Other current liabilities	**1,292**	1,261
Total Current Liabilities	**5,888**	5,255
Long-term Debt	**18,076**	17,993
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**3,589**	3,326
Investment tax credits	**295**	285
Price risk management liabilities	**1,074**	840
Accrued pension obligations	**1,105**	1,299
Asset retirement obligations	**491**	484
Regulatory liabilities	**1,009**	1,010
Other deferred credits and noncurrent liabilities	**1,020**	1,060
Total Deferred Credits and Other Noncurrent Liabilities	**8,583**	8,304
Commitments and Contingent Liabilities (Notes 6 and 10)		
Equity		
PPL Corporation Shareowners' Common Equity		
Common stock - $0.01 par value (a)	**6**	6
Additional paid in capital	**6,862**	6,813
Earnings reinvested	**5,129**	4,797
Accumulated other comprehensive loss	**(730)**	(788)
Total PPL Corporation Shareowners' Common Equity	**11,267**	10,828
Noncontrolling Interests	**268**	268
Total Equity	**11,535**	11,096
Total Liabilities and Equity	**$ 44,082**	$ 42,648

(a) 780,000 shares authorized; 579,520 and 578,405 shares issued and outstanding at March 31, 2012 and December 31, 2011.

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

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

	PPL Corporation Shareowners						
	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Non-controlling interests	Total
December 31, 2011	578,405	$ 6	$ 6,813	$ 4,797	$ (788)	$ 268	$ 11,096
Common stock issued (b)	1,115		32				32
Stock-based compensation (c)			17				17
Net income				541		4	545
Dividends, dividend equivalents and distributions (d)				(209)		(4)	(213)
Other comprehensive income (loss)					58		58
March 31, 2012	579,520	$ 6	$ 6,862	$ 5,129	$ (730)	$ 268	$ 11,535
December 31, 2010	483,391	$ 5	$ 4,602	$ 4,082	$ (479)	$ 268	$ 8,478
Common stock issued (b)	1,227		40				40
Stock-based compensation (c)			(5)				(5)
Net income				401		4	405
Dividends, dividend equivalents and distributions (d)				(171)		(4)	(175)
Other comprehensive income (loss)					55		55
March 31, 2011	484,618	$ 5	$ 4,637	$ 4,312	$ (424)	$ 268	$ 8,798

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented to any shareowners' meeting.
(b) Each period includes shares of common stock issued through various stock and incentive compensation plans.
(c) The three months ended March 31, 2012 and 2011 include $29 million and $17 million of stock-based compensation expense related to new and existing unvested equity awards. These periods also include the reclassification of $(12) million and $(22) million related primarily to the reclassification from "Stock-based compensation" to "Common stock issued" for the issuance of common stock after applicable equity award vesting periods and tax adjustments related to stock-based compensation.
(d) "Earnings reinvested" includes dividends and dividend equivalents on PPL Corporation common stock and restricted stock units. "Noncontrolling interests" includes dividends, redemptions and distributions to noncontrolling interests.

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

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31, 2012	2011
Operating Revenues		
Wholesale energy marketing		
Realized	**$ 1,208**	$ 1,038
Unrealized economic activity (Note 14)	**852**	57
Wholesale energy marketing to affiliate	**21**	6
Unregulated retail electric and gas	**224**	147
Net energy trading margins	**8**	11
Energy-related businesses	**96**	110
Total Operating Revenues	**2,409**	1,369
Operating Expenses		
Operation		
Fuel	**211**	260
Energy purchases		
Realized	**659**	314
Unrealized economic activity (Note 14)	**591**	(18)
Energy purchases from affiliate	**1**	1
Other operation and maintenance	**255**	245
Depreciation	**64**	59
Taxes, other than income	**18**	16
Energy-related businesses	**92**	108
Total Operating Expenses	**1,891**	985
Operating Income	**518**	384
Other Income (Expense) - net	**5**	14
Other-Than-Temporary Impairments		1
Interest Income from Affiliates		3
Interest Expense	**37**	47
Income from Continuing Operations Before Income Taxes	**486**	353
Income Taxes	**177**	142
Income from Continuing Operations After Income Taxes	**309**	211
Income (Loss) from Discontinued Operations (net of income taxes)		3
Net Income Attributable to PPL Energy Supply	**$ 309**	$ 214

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31,	
	2012	2011
Net income	**$ 309**	$ 214
Other comprehensive income (loss):		
Amounts arising during the period - gains (losses), net of tax (expense) benefit:		
Available-for-sale securities, net of tax of ($28), ($12)	**22**	12
Qualifying derivatives, net of tax of ($57), ($34)	**56**	50
Reclassifications to net income - (gains) losses, net of tax expense (benefit):		
Available-for-sale securities, net of tax of $2, $5	**(3)**	(7)
Qualifying derivatives, net of tax of $93, $54	**(139)**	(79)
Equity investee's other comprehensive (income) loss, net of tax of $0, $0		2
Defined benefit plans:		
Prior service costs, net of tax of ($1), ($1)	**1**	1
Net actuarial loss, net of tax of $2, $0	**5**	1
Total other comprehensive income (loss) attributable to PPL Energy Supply	**(58)**	(20)
Comprehensive income (loss) attributable to PPL Energy Supply	**$ 251**	$ 194

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31, 2012	2011
Cash Flows from Operating Activities		
Net income	**$ 309**	$ 214
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**64**	59
Amortization	**38**	33
Defined benefit plans - expense	**10**	9
Deferred income taxes and investment tax credits	**161**	105
Unrealized (gains) losses on derivatives, and other hedging activities	**(260)**	(105)
Other	**17**	13
Change in current assets and current liabilities		
Accounts receivable	**37**	69
Accounts payable	**(24)**	(92)
Unbilled revenues	**6**	122
Fuel, materials and supplies	**(51)**	(17)
Prepayments	**(7)**	51
Taxes	**(26)**	42
Counterparty collateral	**65**	(195)
Accrued interest	**23**	25
Other	**(26)**	(12)
Other operating activities		
Defined benefit plans - funding	**(69)**	(127)
Other assets	**(12)**	(3)
Other liabilities	**(1)**	11
Net cash provided by operating activities	**254**	202
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(199)**	(127)
Proceeds from the sale of certain non-core generation facilities		381
Purchases of nuclear plant decommissioning trust investments	**(38)**	(79)
Proceeds from the sale of nuclear plant decommissioning trust investments	**34**	75
Net (increase) decrease in notes receivable from affiliates	**198**	(458)
Net (increase) decrease in restricted cash and cash equivalents	**(19)**	(5)
Other investing activities	**(17)**	(11)
Net cash provided by (used in) investing activities	**(41)**	(224)
Cash Flows from Financing Activities		
Distributions to Member	**(557)**	(81)
Cash included in net assets of subsidiary distributed to Member		(325)
Net increase (decrease) in short-term debt	**100**	350
Net cash provided by (used in) financing activities	**(457)**	(56)
Net Increase (Decrease) in Cash and Cash Equivalents	**(244)**	(78)
Cash and Cash Equivalents at Beginning of Period	**379**	661
Cash and Cash Equivalents at End of Period	**$ 135**	$ 583

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

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

	March 31, 2012	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	$ **135**	$ 379
Restricted cash and cash equivalents	**164**	145
Accounts receivable (less reserve: 2012, $26; 2011, $15)		
Customer	**134**	169
Other	**24**	31
Accounts receivable from affiliates	**93**	89
Unbilled revenues	**396**	402
Note receivable from affiliate		198
Fuel, materials and supplies	**347**	298
Prepayments	**21**	14
Price risk management assets	**3,222**	2,527
Other current assets	**14**	11
Total Current Assets	**4,550**	4,263
Investments		
Nuclear plant decommissioning trust funds	**693**	640
Other investments	**45**	40
Total Investments	**738**	680
Property, Plant and Equipment		
Non-regulated property, plant and equipment		
Generation	**10,544**	10,517
Nuclear fuel	**718**	658
Other	**251**	245
Less: accumulated depreciation - non-regulated property, plant and equipment	**5,651**	5,573
Non-regulated property, plant and equipment, net	**5,862**	5,847
Construction work in progress	**704**	639
Property, Plant and Equipment, net (a)	**6,566**	6,486
Other Noncurrent Assets		
Goodwill	**86**	86
Other intangibles (a)	**387**	386
Price risk management assets	**1,149**	896
Other noncurrent assets	**390**	382
Total Other Noncurrent Assets	**2,012**	1,750
Total Assets	$ **13,866**	$ 13,179

(a) At March 31, 2012 and December 31, 2011, includes $417 million and $416 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and $10 million and $11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

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

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

	March 31, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities		
Short-term debt	**$ 500**	$ 400
Accounts payable	**427**	472
Accounts payable to affiliates	**19**	14
Taxes	**64**	90
Interest	**53**	30
Price risk management liabilities	**2,129**	1,560
Counterparty collateral	**213**	148
Deferred income taxes	**367**	315
Other current liabilities	**170**	196
Total Current Liabilities	**3,942**	3,225
Long-term Debt	**3,024**	3,024
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**1,308**	1,223
Investment tax credits	**148**	136
Price risk management liabilities	**1,025**	785
Accrued pension obligations	**150**	214
Asset retirement obligations	**353**	349
Other deferred credits and noncurrent liabilities	**185**	186
Total Deferred Credits and Other Noncurrent Liabilities	**3,169**	2,893
Commitments and Contingent Liabilities (Note 10)		
Equity		
Member's equity	**3,713**	4,019
Noncontrolling interests	**18**	18
Total Equity	**3,731**	4,037
Total Liabilities and Equity	**$ 13,866**	$ 13,179

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

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Member's equity	Non-controlling interests	Total
December 31, 2011	$ 4,019	$ 18	$ 4,037
Net income	309		309
Other comprehensive income (loss)	(58)		(58)
Distributions	(557)		(557)
March 31, 2012	$ 3,713	$ 18	$ 3,731
December 31, 2010	$ 4,491	$ 18	$ 4,509
Net income	214		214
Other comprehensive income (loss)	(20)		(20)
Distributions	(81)		(81)
Distribution of membership interest in PPL Global (a)	(1,288)		(1,288)
March 31, 2011	$ 3,316	$ 18	$ 3,334

(a) In January 2011, PPL Energy Supply distributed its entire membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. The distribution was made based on the book value of the assets and liabilities of PPL Global with financial effect as of January 1, 2011, and no gains or losses were recognized on the distribution.

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

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Operating Revenues		
Retail electric	**$ 457**	$ 554
Electric revenue from affiliate	**1**	4
Total Operating Revenues	**458**	558
Operating Expenses		
Operation		
Energy purchases	**153**	251
Energy purchases from affiliate	**21**	6
Other operation and maintenance	**140**	130
Depreciation	**39**	33
Taxes, other than income	**26**	35
Total Operating Expenses	**379**	455
Operating Income	**79**	103
Other Income (Expense) - net	**1**	
Interest Income from Affiliate	**1**	
Interest Expense	**24**	24
Income Before Income Taxes	**57**	79
Income Taxes	**20**	23
Net Income (a)	**37**	56
Distributions on Preferred Securities	**4**	4
Net Income Available to PPL Corporation	**$ 33**	$ 52

(a) Net income approximates comprehensive income.

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

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

	Three Months Ended March 31,	
	2012	**2011**
Cash Flows from Operating Activities		
Net income	**$ 37**	$ 56
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	**39**	33
Amortization	**4**	
Defined benefit plans - expense	**9**	4
Deferred income taxes and investment tax credits	**58**	(29)
Other	**5**	3
Change in current assets and current liabilities		
Accounts receivable	**(11)**	(61)
Accounts payable	**(25)**	(52)
Unbilled revenues	**23**	33
Prepayments	**(70)**	17
Regulatory assets and liabilities		37
Taxes		27
Other	**(1)**	(17)
Other operating activities		
Defined benefit plans- funding	**(54)**	(98)
Other assets		1
Other liabilities	**(24)**	(1)
Net cash provided by (used in) operating activities	**(10)**	(47)
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(121)**	(129)
Other investing activities	**(1)**	4
Net cash provided by (used in) investing activities	**(122)**	(125)
Cash Flows from Financing Activities		
Common stock dividends to PPL	**(35)**	(18)
Dividends on preferred securities	**(4)**	(4)
Net cash provided by (used in) financing activities	**(39)**	(22)
Net Increase (Decrease) in Cash and Cash Equivalents	**(171)**	(194)
Cash and Cash Equivalents at Beginning of Period	**320**	204
Cash and Cash Equivalents at End of Period	**$ 149**	$ 10

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

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

	March 31, 2012	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	**$ 149**	$ 320
Accounts receivable (less reserve: 2012, $17; 2011, $17)		
Customer	**287**	271
Other	**8**	9
Accounts receivable from affiliates	**32**	35
Unbilled revenues	**75**	98
Materials and supplies	**39**	42
Prepayments	**148**	78
Other current assets	**32**	30
Total Current Assets	**770**	883
Property, Plant and Equipment		
Regulated utility plant	**5,932**	5,830
Less: accumulated depreciation - regulated utility plant	**2,241**	2,217
Regulated utility plant, net	**3,691**	3,613
Other, net	**2**	2
Construction work in progress	**235**	242
Property, Plant and Equipment, net	**3,928**	3,857
Other Noncurrent Assets		
Regulatory assets	**731**	729
Intangibles	**157**	155
Other noncurrent assets	**81**	81
Total Other Noncurrent Assets	**969**	965
Total Assets	**$ 5,667**	$ 5,705

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

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

	March 31, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities		
Accounts payable	$ **150**	$ 171
Accounts payable to affiliates	**61**	64
Interest	**19**	24
Regulatory liabilities	**53**	53
Customer deposits and prepayments	**16**	39
Vacation	**24**	22
Other current liabilities	**69**	47
Total Current Liabilities	**392**	420
Long-term Debt	**1,718**	1,718
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**1,167**	1,115
Investment tax credits	**4**	5
Accrued pension obligations	**136**	186
Regulatory liabilities	**12**	7
Other deferred credits and noncurrent liabilities	**115**	129
Total Deferred Credits and Other Noncurrent Liabilities	**1,434**	1,442
Commitments and Contingent Liabilities (Notes 6 and 10)		
Shareowners' Equity		
Preferred securities	**250**	250
Common stock - no par value (a)	**364**	364
Additional paid-in capital	**979**	979
Earnings reinvested	**530**	532
Total Equity	**2,123**	2,125
Total Liabilities and Equity	$ **5,667**	$ 5,705

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at March 31, 2012 and December 31, 2011.

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

CONDENSED CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Preferred securities (b)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2011	66,368	$ 250	$ 364	$ 979	$ 532	$ 2,125
Net income					37	37
Cash dividends declared on preferred securities					(4)	(4)
Cash dividends declared on common stock					(35)	(35)
March 31, 2012	66,368	$ 250	$ 364	$ 979	$ 530	$ 2,123
December 31, 2010	66,368	$ 250	$ 364	$ 879	$ 451	$ 1,944
Net income					56	56
Cash dividends declared on preferred securities					(4)	(4)
Cash dividends declared on common stock					(18)	(18)
March 31, 2011	66,368	$ 250	$ 364	$ 879	$ 485	$ 1,978

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.
(b) In April 2012, PPL Electric gave notice that it had elected to redeem all of its outstanding preference stock on June 18, 2012. See Note 7 for additional information.

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

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Operating Revenues	**$ 705**	$ 766
Operating Expenses		
Operation		
Fuel	**213**	215
Energy purchases	**74**	107
Other operation and maintenance	**206**	181
Depreciation	**86**	81
Taxes, other than income	**11**	9
Total Operating Expenses	**590**	593
Operating Income	**115**	173
Other Income (Expense) - net	**(3)**	(1)
Interest Expense	**38**	36
Income Before Income Taxes	**74**	136
Income Taxes	**21**	49
Net Income	**$ 53**	$ 87

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31,	
	2012	**2011**
Net income	**$ 53**	$ 87
Other comprehensive income (loss):		
Amounts arising during the period - gains (losses), net of tax (expense) benefit:		
Equity investee's other comprehensive income (loss), net of tax of $2, $0	**(4)**	(1)
Reclassification to net income - (gains) losses, net of tax expense (benefit):		
Defined benefit plans:		
Net actuarial loss, net of tax of $0, $0		(1)
Total other comprehensive income (loss)	**(4)**	(2)
Comprehensive income (loss)	**$ 49**	**$ 85**

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31,	
	2012	**2011**
Cash Flows from Operating Activities		
Net income	**$ 53**	$ 87
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**86**	81
Amortization	**7**	7
Defined benefit plans - expense	**10**	12
Deferred income taxes and investment tax credits	**32**	120
Other	**(1)**	(10)
Change in current assets and current liabilities		
Accounts receivable		13
Accounts payable	**16**	(22)
Accounts payable to affiliates	**4**	(1)
Unbilled revenues	**29**	39
Fuel, materials and supplies	**29**	43
Income tax receivable	**(9)**	(26)
Accrued interest	**30**	28
Other	**(1)**	(29)
Other operating activities		
Defined benefit plans - funding	**(58)**	(153)
Other assets	**(1)**	
Other liabilities	**6**	4
Net cash provided by operating activities	**232**	193
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(174)**	(69)
Proceeds from the sale of other investments		163
Net (increase) decrease in notes receivable from affiliates	**10**	16
Net (increase) decrease in restricted cash and cash equivalents	**2**	(2)
Net cash provided by (used in) investing activities	**(162)**	108
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt		(163)
Debt issuance and credit facility costs		(1)
Distributions to member	**(25)**	(54)
Net cash provided by (used in) financing activities	**(25)**	(218)
Net Increase (Decrease) in Cash and Cash Equivalents	**45**	83
Cash and Cash Equivalents at Beginning of Period	**59**	11
Cash and Cash Equivalents at End of Period	**$ 104**	$ 94

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

CONDENSED CONSOLIDATED BALANCE SHEETS
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	March 31, 2012	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	**$ 104**	$ 59
Accounts receivable (less reserve: 2012, $20; 2011, $17)		
Customer	**141**	135
Other	**9**	14
Unbilled revenues	**117**	146
Fuel, materials and supplies	**254**	283
Prepayments	**17**	22
Notes receivable from affiliates	**5**	15
Income tax receivable	**12**	3
Deferred income taxes	**72**	17
Regulatory assets	**15**	9
Other current assets	**1**	3
Total Current Assets	**747**	706
Investments	**24**	31
Property, Plant and Equipment		
Regulated utility plant	**7,652**	7,519
Less: accumulated depreciation - regulated utility plant	**337**	277
Regulated utility plant, net	**7,315**	7,242
Other, net	**2**	2
Construction work in progress	**531**	557
Property, Plant and Equipment, net	**7,848**	7,801
Other Noncurrent Assets		
Regulatory assets	**603**	620
Goodwill	**996**	996
Other intangibles	**302**	314
Other noncurrent assets	**106**	108
Total Other Noncurrent Assets	**2,007**	2,038
Total Assets	**$ 10,626**	$ 10,576

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

CONDENSED CONSOLIDATED BALANCE SHEETS
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	March 31, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities		
Accounts payable	$ **195**	$ 224
Accounts payable to affiliates	**6**	2
Customer deposits	**45**	45
Taxes	**34**	25
Regulatory liabilities	**21**	20
Interest	**53**	23
Salaries and benefits	**47**	64
Other current liabilities	**32**	30
Total Current Liabilities	**433**	433
Long-term Debt	**4,074**	4,073
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**501**	413
Investment tax credits	**143**	144
Accrued pension obligations	**310**	359
Asset retirement obligations	**117**	116
Regulatory liabilities	**997**	1,003
Price risk management liabilities	**49**	55
Other deferred credits and noncurrent liabilities	**237**	239
Total Deferred Credits and Other Noncurrent Liabilities	**2,354**	2,329
Commitments and Contingent Liabilities (Notes 6 and 10)		
Member's Equity	**3,765**	3,741
Total Liabilities and Equity	**$ 10,626**	$ 10,576

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

CONDENSED CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Member's Equity
December 31, 2011	$ 3,741
Net income	53
Distributions to member	(25)
Other comprehensive income (loss)	(4)
March 31, 2012	$ 3,765
December 31, 2010	$ 4,011
Net income	87
Distributions to member	(54)
Other comprehensive income (loss)	(2)
March 31, 2011	$ 4,042

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

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CONDENSED STATEMENTS OF INCOME
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31,	
	2012	**2011**
Operating Revenues		
Retail and wholesale	**$ 329**	$ 371
Electric revenue from affiliate	**24**	27
Total Operating Revenues	**353**	398
Operating Expenses		
Operation		
Fuel	**89**	85
Energy purchases	**69**	99
Energy purchases from affiliate	**4**	11
Other operation and maintenance	**98**	90
Depreciation	**38**	36
Taxes, other than income	**5**	4
Total Operating Expenses	**303**	325
Operating Income	**50**	73
Other Income (Expense) - net	**1**	(1)
Interest Expense	**11**	11
Income Before Income Taxes	**40**	61
Income Taxes	**15**	22
Net Income (a)	**$ 25**	$ 39

(a) Net income approximates comprehensive income.

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

CONDENSED STATEMENTS OF CASH FLOWS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Cash Flows from Operating Activities		
Net income	**$ 25**	$ 39
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**38**	36
Defined benefit plans - expense	**4**	5
Deferred income taxes and investment tax credits	**16**	13
Other	**(1)**	(1)
Change in current assets and current liabilities		
Accounts receivable	**(9)**	9
Accounts payable	**14**	(13)
Accounts payable to affiliates	**(10)**	(5)
Unbilled revenues	**16**	23
Fuel, materials and supplies	**19**	40
Other	**13**	8
Other operating activities		
Defined benefit plans - funding	**(24)**	(65)
Other liabilities	**1**	2
Net cash provided by operating activities	**102**	91
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(60)**	(33)
Proceeds from the sale of other investments		163
Net (increase) decrease in restricted cash and cash equivalents	**2**	(2)
Net cash provided by (used in) investing activities	**(58)**	128
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates		(12)
Net increase (decrease) in short-term debt		(163)
Debt issuance and credit facility costs		(1)
Payment of common stock dividends to parent	**(15)**	(17)
Net cash provided by (used in) financing activities	**(15)**	(193)
Net Increase (Decrease) in Cash and Cash Equivalents	**29**	26
Cash and Cash Equivalents at Beginning of Period	**25**	2
Cash and Cash Equivalents at End of Period	**$ 54**	$ 28

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

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	March 31, 2012	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	**$ 54**	$ 25
Accounts receivable (less reserve: 2012, $2; 2011, $2)		
Customer	**64**	62
Other	**5**	7
Unbilled revenues	**49**	65
Accounts receivable from affiliates	**20**	11
Fuel, materials and supplies	**123**	142
Prepayments	**5**	7
Income taxes receivable	**3**	4
Deferred income taxes	**2**	2
Regulatory assets	**14**	9
Other current assets	**1**	
Total Current Assets	**340**	334
Property, Plant and Equipment		
Regulated utility plant	**3,027**	2,956
Less: accumulated depreciation - regulated utility plant	**144**	116
Regulated utility plant, net	**2,883**	2,840
Construction work in progress	**184**	215
Property, Plant and Equipment, net	**3,067**	3,055
Other Noncurrent Assets		
Regulatory assets	**389**	403
Goodwill	**389**	389
Other intangibles	**160**	166
Other noncurrent assets	**38**	40
Total Other Noncurrent Assets	**976**	998
Total Assets	**$ 4,383**	$ 4,387

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

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	March 31, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities		
Accounts payable	$ **97**	$ 94
Accounts payable to affiliates	**16**	26
Customer deposits	**22**	22
Taxes	**18**	13
Regulatory liabilities	**10**	10
Interest	**12**	6
Salaries and benefits	**12**	13
Other current liabilities	**19**	15
Total Current Liabilities	**206**	199
Long-term Debt	**1,112**	1,112
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**492**	475
Investment tax credits	**42**	43
Accrued pension obligations	**72**	95
Asset retirement obligations	**55**	55
Regulatory liabilities	**473**	478
Price risk management liabilities	**49**	55
Other deferred credits and noncurrent liabilities	**110**	113
Total Deferred Credits and Other Noncurrent Liabilities	**1,293**	1,314
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	**424**	424
Additional paid-in capital	**1,278**	1,278
Earnings reinvested	**70**	60
Total Equity	**1,772**	1,762
Total Liabilities and Equity	**$ 4,383**	$ 4,387

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at March 31, 2012 and December 31, 2011.

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

CONDENSED STATEMENTS OF EQUITY
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)		Common stock		Additional paid-in capital		Earnings reinvested		Total
December 31, 2011	21,294	$	424	$	1,278	$	60	$	1,762
Net income							25		25
Cash dividends declared on common stock							(15)		(15)
March 31, 2012	21,294	$	424	$	1,278	$	70	$	1,772
December 31, 2010	21,294	$	424	$	1,278	$	19	$	1,721
Net income							39		39
Cash dividends declared on common stock							(17)		(17)
March 31, 2011	21,294	$	424	$	1,278	$	41	$	1,743

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

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

CONDENSED STATEMENTS OF INCOME
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31, 2012	2011
Operating Revenues		
Retail and wholesale	**$ 376**	$ 395
Electric revenue from affiliate	**4**	11
Total Operating Revenues	**380**	406
Operating Expenses		
Operation		
Fuel	**124**	130
Energy purchases	**5**	8
Energy purchases from affiliate	**24**	27
Other operation and maintenance	**95**	84
Depreciation	**48**	45
Taxes, other than income	**6**	5
Total Operating Expenses	**302**	299
Operating Income	**78**	107
Other Income (Expense) - net	**(1)**	1
Interest Expense	**17**	18
Income Before Income Taxes	**60**	90
Income Taxes	**22**	32
Net Income	**$ 38**	$ 58

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

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31,	
	2012	**2011**
Net income	**$ 38**	$ 58
Other comprehensive income (loss):		
Amounts arising during the period - gains (losses), net of tax (expense) benefit:		
Equity investees' other comprehensive income (loss), net of tax of $2, $0	**(4)**	(1)
Total other comprehensive income (loss)	**(4)**	(1)
Comprehensive income (loss)	**$ 34**	$ **57**

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

CONDENSED STATEMENTS OF CASH FLOWS
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31, 2012	2011
Cash Flows from Operating Activities		
Net income	**$ 38**	$ 58
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**48**	45
Defined benefit plans - expense	**3**	4
Deferred income taxes and investment tax credits	**25**	22
Other	**6**	(3)
Change in current assets and current liabilities		
Accounts receivable	**(7)**	20
Accounts payable	**10**	3
Accounts payable to affiliates	**3**	(7)
Unbilled revenues	**13**	16
Fuel, materials and supplies	**10**	3
Other	**16**	13
Other operating activities		
Defined benefit plans - funding	**(17)**	(44)
Other assets	**(1)**	
Other liabilities	**5**	1
Net cash provided by operating activities	**152**	131
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(113)**	(36)
Net cash provided by (used in) investing activities	**(113)**	(36)
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates		(10)
Payment of common stock dividends to parent	**(24)**	(31)
Net cash provided by (used in) financing activities	**(24)**	(41)
Net Increase (Decrease) in Cash and Cash Equivalents	**15**	54
Cash and Cash Equivalents at Beginning of Period	**31**	3
Cash and Cash Equivalents at End of Period	**$ 46**	$ 57

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

CONDENSED BALANCE SHEETS
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	March 31, 2012	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	**$ 46**	$ 31
Accounts receivable (less reserve: 2012, $2; 2011, $2)		
Customer	**77**	73
Other	**4**	5
Unbilled revenues	**68**	81
Accounts receivable from affiliates	**3**	
Fuel, materials and supplies	**131**	141
Prepayments	**6**	7
Income taxes receivable	**4**	5
Deferred income taxes	**5**	5
Regulatory assets	**1**	
Other current assets	**4**	3
Total Current Assets	**349**	351
Investments	**23**	31
Property, Plant and Equipment		
Regulated utility plant	**4,625**	4,563
Less: accumulated depreciation - regulated utility plant	**193**	161
Regulated utility plant, net	**4,432**	4,402
Construction work in progress	**345**	340
Property, Plant and Equipment, net	**4,777**	4,742
Other Noncurrent Assets		
Regulatory assets	**214**	217
Goodwill	**607**	607
Other intangibles	**142**	148
Other noncurrent assets	**61**	60
Total Other Noncurrent Assets	**1,024**	1,032
Total Assets	**$ 6,173**	$ 6,156

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

CONDENSED BALANCE SHEETS
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	March 31, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities		
Accounts payable	**$ 88**	$ 112
Accounts payable to affiliates	**36**	33
Customer deposits	**23**	23
Taxes	**15**	11
Interest	**26**	11
Regulatory liabilities	**11**	10
Salaries and benefits	**10**	14
Other current liabilities	**14**	14
Total Current Liabilities	**223**	228
Long-term Debt	**1,842**	1,842
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**508**	484
Investment tax credits	**101**	101
Accrued pension obligations	**70**	83
Asset retirement obligations	**62**	61
Regulatory liabilities	**524**	525
Other deferred credits and noncurrent liabilities	**88**	87
Total Deferred Credits and Other Noncurrent Liabilities	**1,353**	1,341
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	**308**	308
Additional paid-in capital	**2,348**	2,348
Earnings reinvested	**103**	89
Accumulated other comprehensive income (loss)	**(4)**	
Total Equity	**2,755**	2,745
Total Liabilities and Equity	**$ 6,173**	$ 6,156

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at March 31, 2012 and December 31, 2011.

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

CONDENSED STATEMENTS OF EQUITY
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2011	37,818	$ 308	$ 2,348	$ 89		$ 2,745
Net income				38		38
Cash dividends declared on common stock				(24)		(24)
Other comprehensive income (loss)					$ (4)	(4)
March 31, 2012	37,818	$ 308	$ 2,348	$ 103	$ (4)	$ 2,755
December 31, 2010	37,818	$ 308	$ 2,348	$ 35		$ 2,691
Net income				58		58
Cash dividends declared on common stock				(31)		(31)
Other comprehensive income (loss)					$ (1)	(1)
March 31, 2011	37,818	$ 308	$ 2,348	$ 62	$ (1)	$ 2,717

(a) Shares in thousands. All common shares of KU stock are owned by LKE.

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

Combined Notes to Condensed Financial Statements (Unaudited)

1. Interim Financial Statements

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with accounting principles generally accepted in the U.S. are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2011 is derived from that Registrant's 2011 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2011 Form 10-K. The results of operations for the three months ended March 31, 2012, are not necessarily indicative of the results to be expected for the full year ending December 31, 2012, or other future periods, because results for interim periods can be disproportionately influenced by various factors and developments and seasonal variations.

The classification of certain prior period amounts has been changed to conform to the presentation in the March 31, 2012 financial statements.

(PPL)

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands), from subsidiaries of E.ON AG. Therefore, 2012 includes three months of operating results of WPD Midlands with no comparable amounts for the same period in 2011. See Note 8 for additional information.

PPL consolidates WPD, including WPD Midlands, on a one-month lag. Material intervening events, such as debt issuances that occur in the lag period, are recognized in the current period financial statements. Events that are significant but not material are disclosed.

2. Summary of Significant Accounting Policies

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The following accounting policy disclosures represent updates to Note 1 in each Registrant's 2011 Form 10-K and should be read in conjunction with those disclosures.

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

PPL Electric's customers may choose an alternative supplier for their generation supply. In accordance with a PUC-approved purchase of accounts receivable program, PPL Electric continues to purchase certain accounts receivable from alternative suppliers at a nominal discount, which reflects a provision for uncollectible accounts. The alternative suppliers (including PPL Electric's affiliate, PPL EnergyPlus) have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. PPL Electric receives a nominal fee for administering its program. During the three months ended March 31, 2012, PPL Electric purchased $287 million of accounts receivable from unaffiliated third parties and $98 million from its affiliate, PPL EnergyPlus. During the three months ended March 31, 2011, PPL Electric purchased $254 million of accounts receivable from unaffiliated third parties and $61 million from its affiliate, PPL EnergyPlus.

New Accounting Guidance Adopted *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

Fair Value Measurements

Effective January 1, 2012, the Registrants prospectively adopted accounting guidance that was issued to clarify existing fair value measurement guidance as well as enhance fair value disclosures. The additional disclosures required by this guidance include quantitative information about significant unobservable inputs used for Level 3 measurements, qualitative information about the sensitivity of recurring Level 3 measurements, information about any transfers between Level 1 and 2 of the fair value hierarchy, information about when the current use of a non-financial asset is different from the highest and best use, and the hierarchy classification for assets and liabilities whose fair value is disclosed only in the notes to the financial statements.

The adoption of this standard resulted in additional footnote disclosure but did not have a significant impact on the Registrants. See Note 13 for additional disclosures required by this guidance.

Testing Goodwill for Impairment

Effective January 1, 2012, the Registrants prospectively adopted accounting guidance which allows an entity to elect the option to first make a qualitative evaluation about the likelihood of an impairment of goodwill. If, based on this assessment, the entity determines it is not more likely than not the fair value of a reporting unit is less than the carrying amount, the two-step goodwill impairment test is not necessary. However, the first step of the impairment test is required if an entity concludes it is more likely than not the fair value of a reporting unit is less than the carrying amount based on the qualitative assessment.

The adoption of this standard did not have a significant impact on the Registrants.

3. Segment and Related Information

(PPL)

See Note 2 in PPL's 2011 Form 10-K for a discussion of reportable segments. In 2012, the International Regulated segment was renamed the U.K. Regulated segment to more specifically reflect the focus of this segment. Other than the name change, there were no other changes to this segment. Since the acquisition of WPD Midlands occurred on April 1, 2011, the operating results of the U.K. Regulated segment are not comparable between 2012 and 2011.

Financial data for the segments are:

	Three Months Ended March 31,	
	2012	**2011**
Income Statement Data		
Revenues from external customers		
Kentucky Regulated	$ 705	$ 766
U.K. Regulated	562	225
Pennsylvania Regulated	457	554
Supply (a)	2,388	1,365
Total	$ 4,112	$ 2,910
Intersegment electric revenues		
Pennsylvania Regulated	$ 1	$ 4
Supply	21	6
Net Income Attributable to PPL		
Kentucky Regulated	$ 42	$ 75
U.K. Regulated	165	55
Pennsylvania Regulated	33	52
Supply (a)	301	219
Total	$ 541	$ 401

	March 31, 2012	December 31, 2011
Balance Sheet Data		
Total Assets		
Kentucky Regulated (b)	$ 10,225	$ 10,229
U.K. Regulated	13,779	13,364
Pennsylvania Regulated	5,600	5,610
Supply (b)	14,478	13,445
Total	$ 44,082	$ 42,648

(a) Includes unrealized gains and losses from economic activity. See Note 14 for additional information.
(b) A portion of the goodwill related to the 2010 LKE acquisition has been attributed to PPL's supply segment.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of shares outstanding that are increased for additional shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the treasury stock method. In 2012 and 2011, these securities included stock options and performance units granted under incentive compensation plans. Additionally, the Purchase Contracts associated with the Equity Units will be dilutive under the treasury stock method if the average VWAP of PPL's common stock for a certain period exceeds approximately $30.99 and $28.80, for the 2011 and 2010 Purchase Contracts. The Purchase Contracts were excluded from the diluted EPS calculations for 2012 because they did not meet this criteria during the first quarter of 2012. The 2010 Purchase Contracts were excluded from the diluted EPS calculation for 2011 because they did not meet this criteria during the first quarter of 2011. Subject to antidilution adjustments at March 31, 2012, the maximum number of shares issuable to settle the Purchase Contracts was 99,743,870 shares, including 86,552,565 shares that could be issued under standard provisions of the Purchase Contracts and 13,191,305 shares that could be issued under make-whole provisions in the event of early settlement upon a Fundamental Change. In April 2012, PPL entered into forward sale agreements for PPL common stock. See Note 7 for additional information.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the three months ended March 31 used in the EPS calculation are:

	2012	2011
Income (Numerator)		
Income from continuing operations after income taxes attributable to PPL	$ 541	$ 398
Less amounts allocated to participating securities	3	2
Income from continuing operations after income taxes available to PPL common shareowners	$ 538	$ 396
Income (loss) from discontinued operations (net of income taxes) available to PPL	$	$ 3
Net income attributable to PPL	$ 541	$ 401
Less amounts allocated to participating securities	3	2
Net income available to PPL common shareowners	$ 538	$ 399
Shares of Common Stock (Denominator)		
Weighted-average shares - Basic EPS	579,041	484,138
Add incremental non-participating securities:		
Stock options and performance units	486	207
Weighted-average shares - Diluted EPS	579,527	484,345
Basic EPS		
Available to PPL common shareowners:		
Income from continuing operations after income taxes	$ 0.93	$ 0.82
Net Income	$ 0.93	$ 0.82
Diluted EPS		
Available to PPL common shareowners:		
Income from continuing operations after income taxes	$ 0.93	$ 0.82
Net Income	$ 0.93	$ 0.82

During the three months ended March 31, 2012, PPL issued 276,582 shares of common stock related to the exercise of stock options, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors under its stock-based compensation plans. In addition, PPL issued 279,945 and 558,019 shares of common stock related to its ESOP and DRIP.

For the three months ended March 31, the following stock options to purchase PPL common stock and performance units were excluded from the computations of diluted EPS because the effect would have been antidilutive.

(Shares in thousands)	2012	2011
Stock options	5,682	6,614
Performance units	195	6

5. Income Taxes

Reconciliations of income tax expense are:

(PPL)

	Three Months Ended March 31, 2012	2011
Reconciliation of Income Tax Expense		
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 281	$ 219
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	24	25
State valuation allowance adjustments (a)		11
Impact of lower U.K. income tax rates	(21)	(8)
U.S. income tax on foreign earnings - net of foreign tax credit (b)	2	(6)
Foreign tax reserve adjustments	3	
Federal income tax credits	(4)	(5)
Amortization of investment tax credit	(2)	(3)
Depreciation not normalized (a)	(2)	(4)
State deferred tax rate change (c)	(11)	
Net operating loss carryforward adjustment (d)	(6)	
Other	(5)	(6)
Total increase (decrease)	(22)	4
Total income taxes from continuing operations	$ 259	$ 223

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal tax purposes. Due to the decrease in projected taxable income related to bonus depreciation, PPL recorded state deferred income tax expense during the three months ended March 31, 2011 related to valuation allowances.

Additionally, the 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation. The federal provision for 100% bonus depreciation generally applies to property placed in service before January 1, 2012. The placed in service deadline is extended to January 1, 2013 for property that exceeds $1 million, has a production period longer than one year and has a tax life of at least ten years.

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

(c) During the three months ended March 31, 2012, PPL recorded an $11 million adjustment related to state deferred tax liabilities.

(d) During the three months ended March 31, 2012, PPL recorded an adjustment to deferred taxes related to net operating loss carryforwards of LKE.

(PPL Energy Supply)

	Three Months Ended March 31, 2012	2011
Reconciliation of Income Tax Expense		
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 170	$ 124
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	23	17
State valuation allowance adjustments (a)		6
Federal income tax credits	(4)	(5)
State deferred tax rate change (b)	(11)	
Other	(1)	
Total increase (decrease)	7	18
Total income taxes from continuing operations	$ 177	$ 142

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

(b) During the three months ended March 31, 2012, PPL Energy Supply recorded an $11 million adjustment related to state deferred tax liabilities.

(PPL Electric)

	Three Months Ended March 31,	
	2012	2011
Reconciliation of Income Tax Expense		
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 20	$ 28
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	2	4
Federal and state tax reserve adjustments	(1)	(2)
Federal and state income tax return adjustments (a)		(2)
Depreciation not normalized (a)	(1)	(3)
Other		(2)
Total increase (decrease)		(5)
Total income taxes	$ 20	$ 23

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal tax purposes. The 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation. The federal provision for 100% bonus depreciation generally applies to property placed in service before January 1, 2012.

(LKE)

	Three Months Ended March 31,	
	2012	2011
Reconciliation of Income Tax Expense		
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 26	$ 47
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	2	5
Net operating loss carryforward adjustment (a)	(6)	
Other	(1)	(3)
Total increase (decrease)	(5)	2
Total income taxes	$ 21	$ 49

(a) During the three months ended March 31, 2012, LKE recorded a prior period adjustment to deferred taxes related to net operating loss carryforwards. The impact of this adjustment was not material to any previously reported financial statements, and is not expected to be material to the financial statements for the full year of 2012.

(LG&E)

	Three Months Ended March 31,	
	2012	2011
Reconciliation of Income Tax Expense		
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 14	$ 21
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	1	2
Amortization of investment tax credit	(1)	(1)
Other	1	
Total increase (decrease)	1	1
Total income taxes	$ 15	$ 22

(KU)

	Three Months Ended March 31,	
	2012	2011
Reconciliation of Income Tax Expense		
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 21	$ 31
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	2	3
Other	(1)	(2)
Total increase (decrease)	1	1
Total income taxes	$ 22	$ 32

Unrecognized Tax Benefits *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

Changes to unrecognized tax benefits were as follows:

	Three Months Ended March 31,	
	2012	2011
PPL		
Beginning of period	$ 145	$ 251
Additions based on tax positions of prior years	4	
Reductions based on tax positions of prior years	(27)	
Additions based on tax positions related to the current year	1	
Reductions based on tax positions related to the current year		(1)
Lapse of applicable statutes of limitations	(2)	(2)
Effects of foreign currency translation		3
End of period	$ 121	$ 251
PPL Energy Supply		
Beginning of period	$ 28	$ 183
Additions based on tax positions of prior years	4	
Reductions based on tax positions of prior years	(1)	
Derecognition (a)		(155)
End of period	$ 31	$ 28
PPL Electric		
Beginning of period	$ 73	$ 62
Reductions based on tax positions of prior years	(26)	
Additions based on tax positions related to the current year	1	
Reductions based on tax positions related to the current year		(1)
Lapse of applicable statutes of limitations	(2)	(2)
End of period	$ 46	$ 59

(a) Represents unrecognized tax benefits derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding.

LKE's, LG&E's and KU's unrecognized tax benefits and changes in those unrecognized tax benefits were insignificant for the three months ended March 31, 2012 and 2011.

At March 31, 2012, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase or decrease by the following amounts. For LKE, LG&E and KU, no significant changes in unrecognized tax benefits are reasonably possible over the next 12 months.

	Increase	Decrease
PPL	$ 17	$ 111
PPL Energy Supply	1	31
PPL Electric	23	39

These potential changes could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the creditability of foreign taxes, the timing and utilization of foreign tax credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

At March 31, the total unrecognized tax benefits and related effects that, if recognized, would decrease the effective tax rate were as follows. The amounts for LKE, LG&E and KU were insignificant.

	2012	2011
PPL	$ 41	$ 181
PPL Energy Supply	14	12
PPL Electric	6	12

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

PPL changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year for the Pennsylvania generation, transmission and distribution operations. The same change was made for the Montana generation operations for 2009.

In August 2011, the IRS issued Rev. Procs. 2011-42 and 2011-43. Rev. Proc. 2011-42 provides guidance regarding the use and evaluation of statistical samples and sampling estimates. Rev. Proc. 2011-43 provides a safe harbor method of determining whether the repair expenditures for electric transmission and distribution property can be currently deducted for tax purposes. If PPL adopts the safe harbor method of Rev. Proc. 2011-43, the amount of deductible versus capitalizable expenditures will likely be different from PPL's current method. PPL does not believe any resulting adjustment to unrecognized tax benefits or income tax liabilities will have a significant impact on net income.

The IRS has not issued guidance to provide a safe harbor method for repair expenditures for generation property. The IRS may assert and ultimately conclude that PPL's deduction for generation-related expenditures should be disallowed in whole or in part. PPL believes that it has established an adequate liability for this issue.

Tax Litigation *(PPL)*

In 1997, the U.K. imposed a Windfall Profits Tax (WPT) on privatized utilities, including WPD. PPL filed its tax returns for years subsequent to its 1997 and 1998 claim for refund on the basis that the U.K. WPT was creditable. In September 2010, the U.S. Tax Court (Tax Court) ruled in PPL's favor in a dispute with the IRS, concluding that the U.K. WPT is a creditable tax for U.S. tax purposes. As a result, and with finalization of other issues, PPL recorded a $42 million tax benefit in 2010. In January 2011, the IRS appealed the Tax Court's decision to the U.S. Court of Appeals for the Third Circuit (Third Circuit). In December 2011, the Third Circuit issued its opinion reversing the Tax Court's decision, holding that the U.K. WPT is not a creditable tax. As a result of the Third Circuit's adverse determination, PPL recorded a $39 million expense in the fourth quarter of 2011. In February 2012, PPL filed a petition for rehearing of the Third Circuit opinion. In March 2012, the Third Circuit denied PPL's petition. PPL is considering whether to file a petition for a writ of certiorari with the U.S. Supreme Court.

6. Utility Rate Regulation

(PPL, PPL Electric, LKE, LG&E and KU)

The following table provides information about the regulatory assets and liabilities of cost-based rate regulated utility operations.

	PPL		PPL Electric	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
Current Regulatory Assets:				
Gas supply clause	$ 7	$ 6		
Fuel adjustment clause	8	3		
Total current regulatory assets	$ 15	$ 9		
Noncurrent Regulatory Assets:				
Defined benefit plans	$ 605	$ 615	$ 273	$ 276
Taxes recoverable through future rates	293	289	293	289
Storm costs	149	154	30	31
Unamortized loss on debt	106	110	74	77
Interest rate swaps	62	69		
Accumulated cost of removal of utility plant	59	53	59	53
Coal contracts (a)	9	11		
AROs	21	18		
Other	30	30	2	3
Total noncurrent regulatory assets	$ 1,334	$ 1,349	$ 731	$ 729
Current Regulatory Liabilities:				
Generation supply charge	$ 35	$ 42	$ 35	$ 42
ECR	9	7		
Gas supply clause	6	6		
Transmission service charge	5	2	5	2
Transmission formula rate	7		7	
Other	12	16	6	9
Total current regulatory liabilities	$ 74	$ 73	$ 53	$ 53
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	$ 658	$ 651		
Coal contracts (a)	170	180		
Power purchase agreement - OVEC (a)	114	116		
Net deferred tax assets	38	39		
Act 129 compliance rider	12	7	$ 12	$ 7
Defined benefit plans	9	9		
Other	8	8		
Total noncurrent regulatory liabilities	$ 1,009	$ 1,010	$ 12	$ 7

	LKE		LG&E		KU	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
Current Regulatory Assets:						
Gas supply clause	$ 7	$ 6	$ 7	$ 6		
Fuel adjustment clause	8	3	7	3	$ 1	
Total current regulatory assets	$ 15	$ 9	$ 14	$ 9	$ 1	
Noncurrent Regulatory Assets:						
Defined benefit plans	$ 332	$ 339	$ 220	$ 225	$ 112	$ 114
Storm costs	119	123	64	66	55	57
Unamortized loss on debt	32	33	20	21	12	12
Interest rate swaps	62	69	62	69		
Coal contracts (a)	9	11	4	5	5	6
AROs	21	18	12	11	9	7
Other	28	27	7	6	21	21
Total noncurrent regulatory assets	$ 603	$ 620	$ 389	$ 403	$ 214	$ 217
Current Regulatory Liabilities:						
ECR	$ 9	$ 7			$ 9	$ 7
Gas supply clause	6	6	$ 6	$ 6		
Other	6	7	4	4	2	3
Total current regulatory liabilities	$ 21	$ 20	$ 10	$ 10	$ 11	$ 10
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	$ 658	$ 651	$ 287	$ 286	$ 371	$ 365
Coal contracts (a)	170	180	73	78	97	102
Power purchase agreement - OVEC (a)	114	116	79	80	35	36
Net deferred tax assets	38	39	31	31	7	8
Defined benefit plans	9	9			9	9
Other	8	8	3	3	5	5
Total noncurrent regulatory liabilities	$ 997	$ 1,003	$ 473	$ 478	$ 524	$ 525

(a) These regulatory assets and liabilities were recorded as offsets to certain intangible assets and liabilities that were recorded at fair value upon the acquisition of LKE.

Regulatory Matters

Kentucky Activities *(PPL, LKE, LG&E and KU)*

CPCN Filing

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run plant site. LG&E will own a 22% undivided interest, and KU will own a 78% undivided interest in the new NGCC. In addition, LG&E and KU also requested approval to purchase the Bluegrass CTs which are expected to provide up to 495 MW of peak generation supply. LG&E will own a 69% undivided interest, and KU will own a 31% undivided interest in the purchased assets. In November 2011, LG&E and KU filed an application with the FERC requesting approval to purchase the Bluegrass CTs. In conjunction with these developments, in 2015, LG&E and KU anticipate retiring three coal-fired generating units at LG&E's Cane Run plant and also one coal-fired generating unit at KU's Tyrone plant and two at KU's Green River plant. These generating units represent 797 MW of combined summer capacity.

LG&E and KU anticipate that the NGCC construction and the acquisition of the Bluegrass CTs could require up to $800 million (comprised of up to $300 million for LG&E and up to $500 million for KU) in capital costs including related transmission projects. See Note 8 for additional information. Formal requests for recovery of the costs associated with the NGCC construction and the acquisition of the Bluegrass CTs were not included in the CPCN filing with the KPSC but are expected to be included in future rate proceedings. In May 2012, the KPSC issued an order approving the request to build the NGCC and purchase the Bluegrass CTs. Also, on May 4, 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to implementation of satisfactory mitigation measures to address market-power concerns. FERC approval of the proposed mitigation measures is required. LG&E and KU are reviewing the order's conditions and their impact on the closing conditions under the Bluegrass CTs purchase contract, as well as other regulatory, operational and economic aspects of the transaction. PPL, LKE, LG&E and KU cannot currently predict the ultimate outcome of this matter.

Kentucky Acquisition Commitments

In connection with the September 2010 approval of PPL's acquisition of LKE, LG&E and KU agreed to implement the Acquisition Savings Sharing Deferral (ASSD) methodology whereby LG&E's and KU's adjusted jurisdictional revenues, expenses, and net operating income are calculated each year. If LG&E's or KU's actual earned rate of return on common equity exceeds 10.75%, half of the excess amount will be deferred as a regulatory liability and ultimately returned to customers. The first ASSD filing with the KPSC was made on March 30, 2012 based on the 2011 calendar year. Based upon the actual earned rate of return on common equity for 2011 and the current estimates of the outcome of an ASSD filing in 2012, LG&E and KU have not recognized any impact of the ASSD in the financial statements. The ASSD methodology for each of LG&E's and KU's utility operations will terminate on the earlier of the end of 2015 or the first day of the calendar year during which new base rates go into effect.

Pennsylvania Activities *(PPL and PPL Electric)*

PUC Investigation of Retail Market

In April 2011, the PUC opened an investigation of Pennsylvania's retail electricity market to be conducted in two phases. Phase one addressed the status of the existing retail market and explored potential changes. Questions issued by the PUC for this phase of the investigation focused primarily on default service issues. Phase two was initiated in July 2011 to develop specific proposals for changes to the retail market and default service model. In December 2011, the PUC issued a final order providing guidance to EDCs on the design of their next default service procurement plan filings. In December 2011, the PUC also issued a tentative order proposing an intermediate work plan to address issues raised in the investigation. In March 2012, the PUC entered a final order on the intermediate work plan. In March 2012, the PUC Staff issued three possible models for the default service "end state" and the PUC held a hearing regarding those three models. PPL Electric cannot predict the outcome of the investigation.

Legislation - Regulatory Procedures and Mechanisms

In June 2011, the Pennsylvania House Consumer Affairs Committee approved legislation authorizing the PUC to approve regulatory procedures and mechanisms to provide more timely recovery of a utility's costs. In the first quarter of 2012, the Governor signed an amended version of the legislation (Act 11 of 2012), which became effective April 14, 2012. The legislation authorizes the PUC to approve two specific ratemaking mechanisms -- a fully projected future test year and, subject to certain conditions, a distribution system improvements charge. Such alternative ratemaking procedures and mechanisms are important to PPL Electric as it begins a period of significant increasing capital investment to maintain and enhance the reliability of its delivery system, including the replacement of aging distribution assets. The PUC staff has initiated a process to develop filing guidelines and a model tariff for the distribution system improvements charge. No petition requesting permission to establish a distribution system improvements charge may be filed with the PUC before January 1, 2013.

Federal Matters *(PPL and PPL Electric*)

FERC Formula Rates

Transmission rates are regulated by the FERC. PPL Electric's transmission revenues are billed in accordance with a FERC-approved PJM open access transmission tariff that utilizes a formula-based rate recovery mechanism.

In May 2010, PPL Electric initiated its formula rate 2010 Annual Update. In November 2010, a group of municipal customers taking transmission service in PPL Electric's transmission zone filed a preliminary challenge to the update and, in December 2010, filed a formal challenge. In August 2011, the FERC issued an order substantially rejecting the formal challenge and accepting PPL Electric's 2010 Annual Update. The group of municipal customers filed a request for rehearing of that order.

In June 2011, PPL Electric initiated its formula rate 2011 Annual Update. In October 2011, the group of municipal customers filed a preliminary challenge to the update and, in December 2011, filed a formal challenge. PPL Electric filed a response to that formal challenge. PPL Electric cannot predict the outcome of these two proceedings, which remain pending before the FERC.

In March 2012, PPL Electric filed a request with the FERC seeking recovery, over a 34-year period beginning in June 2012, of its unrecovered regulatory asset related to the deferred state tax liability that existed at the time of the transition from the flow-through treatment of state income taxes to full normalization. This change in tax treatment occurred in 2008 as a result of prior FERC initiatives that transferred regulatory jurisdiction of certain transmission assets from the PUC to FERC. A regulatory asset of $51 million related to this transition, classified as taxes recoverable through future rates, is included in "Other Noncurrent Assets - Regulatory assets" on the Balance Sheets at March 31, 2012 and December 31, 2011. PPL Electric believes recoverability of this regulatory asset is probable based on FERC precedent in similar cases; however, it is reasonably possible that the FERC may limit the recovery of all or part of the claimed asset.

U.K. Activities *(PPL)*

Ofgem Review of Line Loss Calculation

WPD has a $173 million liability recorded at March 31, 2012 compared with $170 million at December 31, 2011, calculated in accordance with Ofgem's accepted methodology, related to the close-out of line losses for the prior price control period, DPCR4. Ofgem is currently consulting on the methodology used to calculate the final line loss incentive/penalty for the DPCR4. In October 2011, Ofgem issued a consultation paper citing two potential changes to the methodology, both of which would result in a reduction of the liability. In March 2012, Ofgem issued a decision regarding the preferred methodology and in April 2012, WPD submitted further data as requested by Ofgem. PPL cannot predict the outcome of this matter, but expects resolution to occur before the end of 2012.

7. Financing Activities

Credit Arrangements and Short-term Debt

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The Registrants maintain credit facilities to enhance liquidity and provide credit support, and as a backstop to commercial paper programs, when necessary. The following credit facilities were in place at:

	March 31, 2012					December 31, 2011	
	Expiration Date	Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backstop	Unused Capacity	Borrowed (a)	Letters of Credit Issued and Commercial Paper Backstop
PPL							
WPD Credit Facilities							
PPL WW Syndicated Credit Facility (b)	Jan. 2013	£ 150	£ 110	n/a	£ 40	£ 111	n/a
WPD (South West) Syndicated Credit Facility (c)	Jan. 2017	245		n/a	245		n/a
WPD (East Midlands) Syndicated Credit Facility	Apr. 2016	300		£ 70	230		£ 70
WPD (West Midlands) Syndicated Credit Facility	Apr. 2016	300		71	229		71
Uncommitted Credit Facilities		73		3	70		3
Total WPD Credit Facilities (d)		£ 1,068	£ 110	£ 144	£ 814	£ 111	£ 144
PPL Energy Supply (e)							
Syndicated Credit Facility	Oct. 2016	$ 3,000		$ 634	$ 2,366		$ 541
Letter of Credit Facility	Mar. 2013	200	n/a	144	56	n/a	89
Total PPL Energy Supply Credit Facilities		$ 3,200		$ 778	$ 2,422		$ 630
PPL Electric (e)							
Syndicated Credit Facility (f)	Oct. 2016	$ 200		$ 1	$ 199		$ 1
Asset-backed Credit Facility (g)	July 2012	150		n/a	150		n/a
Total PPL Electric Credit Facilities		$ 350		$ 1	$ 349		$ 1
LG&E (e) (h)							
Syndicated Credit Facility	Oct. 2016	$ 400			$ 400		
KU (e) (h)							
Syndicated Credit Facility	Oct. 2016	$ 400			$ 400		
Letter of Credit Facility	Apr. 2014	198	n/a	$ 198		n/a	$ 198
Total KU Credit Facilities		$ 598		$ 198	$ 400		$ 198

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

(b) The borrowing outstanding at March 31, 2012 was a USD-denominated borrowing of $174 million, which equated to £110 million at the time of borrowing and bore interest at approximately 1.458%.

(c) In January 2012, WPD (South West) entered into a new £245 million 5-year syndicated credit facility to replace its existing £210 million 3-year syndicated credit facility that was set to expire in July 2012. Under the facility, WPD (South West) has the ability to make cash borrowings but cannot request the lenders to issue letters of credit. WPD (South West) pays customary commitment fees under this facility and borrowings bear interest at

LIBOR-based rates plus a margin. The credit facility contains financial covenants that require WPD (South West) to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, in each case calculated in accordance with the credit facility.

(d) At March 31, 2012, the unused capacity of the WPD credit facilities was approximately $1.3 billion.

(e) All credit facilities at PPL Energy Supply, PPL Electric, LG&E and KU also apply to PPL on a consolidated basis for financial reporting purposes.

(f) In April 2012, PPL Electric increased the capacity of its syndicated credit facility to $300 million.

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

At March 31, 2012 and December 31, 2011, $260 million and $251 million of accounts receivable and $75 million and $98 million of unbilled revenue were pledged by the subsidiary under the credit agreement related to PPL Electric's and the subsidiary's participation in the asset-backed commercial paper program. Based on the accounts receivable and unbilled revenue pledged at March 31, 2012, the amount available for borrowing under the facility was limited to $82 million. PPL Electric's sale to its subsidiary of the accounts receivable and unbilled revenue is an absolute sale of assets, and PPL Electric does not retain an interest in these assets. However, for financial reporting purposes, the subsidiary's financial results are consolidated in PPL Electric's financial statements. PPL Electric performs certain record-keeping and cash collection functions with respect to the assets in return for a servicing fee from the subsidiary.

(h) All credit facilities at LG&E and KU also apply to LKE on a consolidated basis for financial reporting purposes.

(PPL and PPL Energy Supply)

PPL Energy Supply maintains a $500 million Facility Agreement expiring June 2017, whereby PPL Energy Supply has the ability to request up to $500 million of committed letter of credit capacity at fees to be agreed upon at the time of each request, based on certain market conditions. At March 31, 2012, PPL Energy Supply has not requested any capacity for the issuance of letters of credit under this arrangement.

PPL Energy Supply, PPL EnergyPlus, PPL Montour and PPL Brunner Island maintain an $800 million secured energy marketing and trading facility, whereby PPL EnergyPlus will receive credit to be applied to satisfy collateral posting obligations related to its energy marketing and trading activities with counterparties participating in the facility. The credit amount is guaranteed by PPL Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities to secure any amount they may owe under their guarantees. The facility expires in November 2015, but is subject to automatic one-year renewals under certain conditions. There were no secured obligations outstanding under this facility at March 31, 2012.

In April 2012, PPL Energy Supply increased the capacity of its commercial paper program from $500 million to $750 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At March 31, 2012, PPL Energy Supply had $500 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of approximately 0.47%.

(PPL and PPL Electric)

PPL Electric maintains a commercial paper program for up to $200 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility. PPL Electric had no commercial paper outstanding at March 31, 2012.

(PPL, LKE, LG&E and KU)

In February 2012, LG&E and KU each established a commercial paper program for up to $250 million to provide an additional financing source to fund their short-term liquidity needs. Commercial paper issuances will be supported by LG&E and KU's Syndicated Credit Facilities. LG&E and KU had no commercial paper outstanding at March 31, 2012.

(PPL Energy Supply, LKE, LG&E and KU)

See Note 11 for discussion of intercompany borrowings.

Long-term Debt and Equity Securities

(PPL)

In April 2012, PPL made a registered underwritten public offering of 9.9 million shares of its common stock. In conjunction with that offering, the underwriters exercised an option to purchase an additional 590,880 shares of PPL common stock solely to cover over-allotments.

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the 9.9 million shares of PPL's common stock. Settlement of these initial forward sale agreements will occur no later than April 2013. As a result of the underwriters' exercise of the overallotment option, PPL entered into additional forward sale agreements covering the additional 590,880 shares of common stock. Settlement of the subsequent forward sale agreements will occur in July 2013. Upon any physical settlement of any forward sale agreement, PPL will issue and deliver to the forward counterparties shares of its common stock in exchange for cash proceeds per share equal to the forward sale price. The forward sale price will be calculated based on an initial forward price of $27.02 per share reduced during the period the contracts are outstanding as specified in the forward sale agreements. PPL may, in certain circumstances, elect cash settlement or net share settlement for all or a portion of its rights or obligations under the forward sale agreements.

PPL will not receive any proceeds or issue any shares of common stock until settlement of the forward sale agreements. PPL intends to use any net proceeds that it receives upon settlement to repay short-term debt obligations and for other general corporate purposes.

The forward sale agreements will be classified as equity transactions. As a result, no amounts will be recorded in the consolidated financial statements until the settlement of the forward sale agreements. Prior to those settlements, the only impact to the financial statements will be the inclusion of incremental shares within the calculation of diluted EPS using the treasury stock method.

Also in April 2012, WPD (East Midlands) issued £100 million aggregate principal amount of 5.25% Senior Notes due 2023. WPD (East Midlands) received proceeds of approximately £111 million, which equated to $178 million at the time of issuance, net of underwriting fees. The net proceeds will be used for general corporate purposes.

(PPL and PPL Energy Supply)

In April 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the Ironwood Acquisition. See Note 8 for information on the transaction and the debt of PPL Ironwood, LLC assumed through consolidation as part of the acquisition.

(PPL and PPL Electric)

In April 2012, PPL Electric gave notice that it had elected to redeem all 2.5 million shares of its 6.25% Series Preference Stock, par value $100 per share, on June 18, 2012. The price to be paid for the redemption is the par value, without premium ($250 million in the aggregate). The Preference Stock is reflected on PPL's Balance Sheets in "Noncontrolling Interests" and in "Preferred Securities" on PPL Electric's Balance Sheets at March 31, 2012 and December 31, 2011.

(PPL and LKE)

In April 2012, LKE filed a Form S-4 Registration Statement with the SEC, as required by a registration rights agreement entered into in connection with the issuance of senior notes in September 2011 in a transaction not registered under the Securities Act of 1933. The Form S-4 relates to an offer to exchange the senior notes issued in September 2011, with similar but registered securities. See Note 7 in PPL's and LKE's 2011 Form 10-K for additional information.

Legal Separateness

(PPL, PPL Energy Supply, PPL Electric and LKE)

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay the creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Energy Supply, PPL Electric and LKE are each separate legal entities. These subsidiaries are not liable for the debts of PPL Energy Supply, PPL Electric and LKE. Accordingly, creditors of PPL Energy Supply, PPL Electric and LKE may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL Energy Supply, PPL Electric and LKE are not liable for the debts of their subsidiaries, nor are their subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Energy Supply, PPL Electric and LKE (or their other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

Distributions and Capital Contributions

(PPL)

In February 2012, PPL declared its quarterly common stock dividend, payable April 2, 2012, at 36.0 cents per share (equivalent to $1.44 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

During the three months ended March 31, 2012, the following distributions occurred:

	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Dividends/distributions paid to parent/member	$ 557	$ 35	$ 25	$ 15	$ 24

(PPL, LKE, LG&E and KU)

In February 2012, LG&E and KU filed an application with the FERC seeking authorization to pay dividends in the future based on earnings reinvested balances, which would be calculated ignoring the impact of the accounting for the acquisition by PPL. If approved, as of March 31, 2012, this would increase the balance available for dividends from LG&E by $809 million and KU by $1.4 billion. LG&E and KU do not anticipate changing their dividend practices as a result of the filing.

8. Acquisitions, Development and Divestitures

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The Registrants periodically evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are periodically reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. Any resulting transactions may impact future financial results.

Acquisitions

Ironwood Acquisition *(PPL and PPL Energy Supply)*

In April 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the acquisition from a subsidiary of The AES Corporation of all of the equity interests of AES Ironwood, L.L.C. (subsequently renamed PPL Ironwood, LLC) and AES Prescott, L.L.C. (subsequently renamed PPL Prescott, LLC), which own and operate, respectively, the Ironwood Facility. The Ironwood Facility began operation in 2001 and, since 2008, PPL EnergyPlus has supplied natural gas for the operation of the Ironwood Facility and received the facility's full electricity output and capacity value pursuant to a tolling agreement that expires in 2021. The acquisition provides PPL Energy Supply, through its subsidiaries, operational control of additional combined-cycle gas generation in PJM.

At the date of acquisition, total future minimum lease payments to be made by PPL EnergyPlus to PPL Ironwood, LLC under the tolling agreement were $270 million. These payments will continue to be made by PPL EnergyPlus to PPL Ironwood, LLC following the acquisition. The tolling agreement obligation of PPL Ironwood, LLC will be recognized as a liability at fair value on the acquisition date. This liability of PPL Ironwood, LLC, and the existing assets recognized by PPL

EnergyPlus (which represent PPL EnergyPlus' rights to and the related accounting for the tolling agreement), will eliminate in consolidation because PPL Ironwood, LLC is now a subsidiary of PPL Energy Supply as a result of the acquisition. Any difference between these assets and the liability recorded will result in a gain or loss on the acquisition date. PPL Energy Supply cannot estimate the amount of this gain or loss at this time. See Note 11 in PPL's and PPL Energy Supply's 2011 Form 10-K for additional information on the tolling agreement.

The consideration paid for this acquisition, subject to working capital, net indebtedness and fair value adjustments, was as follows.

Aggregate enterprise consideration	$	302
Less: estimated long-term debt outstanding assumed through consolidation (net of restricted cash reserves)		217
Cash consideration paid for equity interests (including estimated working capital adjustments)	$	85

The estimated long-term debt outstanding assumed through consolidation consisted of $226 million of 8.857% senior secured bonds due 2025, plus $8 million of debt service reserve loans, net of $17 million of restricted cash reserves.

PPL Energy Supply has not completed its analysis of the allocation of the fair value of the acquired assets and liabilities assumed due to the timing of the closing of the transaction. PPL Energy Supply cannot estimate at this time the amount of goodwill, if any, that will result from this acquisition.

Acquisition of WPD Midlands *(PPL)*

See Notes 1 and 10 in PPL's 2011 Form 10-K for information on PPL's April 1, 2011 acquisition of WPD Midlands.

Separation Benefits - U.K. Regulated Segment

In connection with the 2011 acquisition, PPL completed a reorganization designed to transition WPD Midlands from a functional structure to a regional structure requiring a smaller combined support structure, reducing duplication and implementing more efficient procedures. More than 700 employees of WPD Midlands will have received separation benefits as a result of the reorganization by the end of 2012.

Separation benefits totaling $104 million, pre-tax, were associated with the reorganization, of which $93 million were recorded in the second half of 2011. Additional severance compensation was recorded during the three months ended March 31, 2012, as shown in the table below. The separation benefits are included in "Other operation and maintenance" on the Statement of Income.

The carrying amount of accrued severance was as follows.

Accrued severance at December 31, 2011	$	21
Severance compensation		6
Severance paid		(8)
Accrued severance at March 31, 2012	$	19

Pro forma Information

The pro forma operating revenues and net income attributable to PPL for the three months ended March 31, which includes WPD Midlands as if the acquisition had occurred January 1, 2010, are as follows.

		2011
Operating Revenues - PPL consolidated pro forma	$	3,215
Net Income Attributable to PPL - PPL consolidated pro forma		526

The pro forma financial information presented above has been derived from the historical consolidated financial statements of PPL and from the historical combined financial statements of WPD Midlands. Income (loss) from discontinued operations (net of income taxes), which was not significant, was excluded from the pro forma amounts above.

The pro forma adjustments include adjustments to depreciation, net periodic pension costs, interest expense, nonrecurring adjustments and the related income tax effects. Nonrecurring adjustments for the three months ended March 31 include the following pre-tax credits (expenses).

	Income Statement Line Item	2011
2011 Bridge Facility costs	Interest Expense	$ (7)
Net hedge losses	Other Income (Expense) - net	(7)
Other acquisition-related costs (a)	Other Income (Expense) - net	(11)

(a) Primarily includes advisory, accounting and legal fees.

Pending Bluegrass CTs Acquisition *(PPL, LKE, LG&E and KU)*

In September 2011, LG&E and KU entered into an Asset Purchase Agreement with Bluegrass Generation for the purchase of the Bluegrass CTs, aggregating approximately 495 MW, plus limited associated contractual arrangements required for operation of the units, for a purchase price of $110 million. Pursuant to the Asset Purchase Agreement, LG&E and KU will jointly acquire the Bluegrass CTs as tenants in common, with LG&E as owner of a 69% undivided interest, and KU as owner of a 31% undivided interest, in the purchased assets. In May 2012, the KPSC issued an order approving the purchase of the Bluegrass CTs. Also, on May 4, 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to implementation of satisfactory mitigation measures to address market-power concerns. FERC approval of the proposed mitigation measures is required. LG&E and KU are reviewing the order's conditions and their impact on the closing conditions under the Bluegrass CTs purchase contract, as well as other regulatory, operational and economic aspects of the transaction. Either party can terminate the Asset Purchase Agreement should the purchase transaction fail to occur by June 30, 2012. PPL, LKE, LG&E and KU cannot currently predict the ultimate outcome of this matter.

Development

NGCC Construction *(PPL, LKE, LG&E and KU)*

In September 2011, LG&E and KU requested KPSC approval to build a 640 MW NGCC at the existing Cane Run plant site in Kentucky. In May 2012, the KPSC issued an order approving the request to build the NGCC. Subject to entering into contracting agreements, completing remaining permitting activities and building schedules, construction is expected to begin in 2012 and be completed during 2015. The project, which includes building a natural gas supply pipeline, has an expected cost of approximately $580 million.

In conjunction with this request and to meet new, stricter federal EPA regulations, LG&E and KU anticipate retiring six older coal-fired electric generating units at the Cane Run, Green River and Tyrone plants, which have a combined summer rating of 797 MW. The Cane Run and Green River coal units are anticipated to remain operational until the replacement generation and associated transmission projects are completed. See Note 6 for additional information.

Bell Bend COLA *(PPL and PPL Energy Supply)*

The NRC continues to review the COLA submitted by a PPL Energy Supply subsidiary, PPL Bell Bend, LLC (PPL Bell Bend) for the proposed Bell Bend nuclear generating unit (Bell Bend) to be built adjacent to the Susquehanna plant. PPL Bell Bend has made no decision to proceed with construction of Bell Bend and expects that such decision will not be made for several years given the anticipated lengthy NRC license approval process. Additionally, PPL Bell Bend has announced that it does not expect to proceed with construction absent favorable economics, a joint arrangement with other interested parties and a federal loan guarantee or other acceptable financing. PPL Bell Bend is currently authorized to spend up to $162 million through 2012 on the COLA and other permitting costs (including land costs) necessary for construction. At March 31, 2012 and December 31, 2011, $137 million and $131 million of costs associated with the licensing application were capitalized and are included on the Balance Sheets in noncurrent "Other intangibles." PPL Bell Bend believes it is probable that these costs are ultimately recoverable following NRC approval of the COLA either through construction of the new nuclear unit, transfer of the COLA rights to a joint venture, or sale of the COLA rights to another party. PPL Bell Bend remains active in the DOE Federal loan guarantee application process. See Note 8 in PPL's and PPL Energy Supply's 2011 Form 10-K for additional information.

Susquehanna-Roseland Transmission Line *(PPL and PPL Electric)*

PPL Electric has experienced delays in obtaining necessary National Park Service (NPS) approvals for the Susquehanna-Roseland transmission line and anticipates a delay of the line's in-service date to 2015. In March 2012, the NPS announced that the route proposed by PPL Electric and PSE&G, previously approved by the Pennsylvania and New Jersey public utility commissions, is the preferred route for the line under the NPS's National Environmental Policy Act review. The NPS has stated that it expects to issue its record of decision in October 2012. An appeal of the New Jersey Board of Public Utilities approval of the line is pending before the New Jersey Superior Court Appellate Division. PPL Electric cannot predict the ultimate outcome or timing of the NPS approval or any further legal challenges to the project. PJM has developed a strategy to manage potential reliability problems until the line is built. PPL Electric cannot predict what additional actions, if any, PJM might take in the event of a further delay to its scheduled in-service date for the new line. See Note 8 in PPL's and PPL Electric's 2011 Form 10-K for additional information.

9. Defined Benefits

(PPL, PPL Energy Supply and PPL Electric)

Prior to January 1, 2012, the majority of PPL's Montana and Pennsylvania employees were eligible for pension benefits under PPL Montana's cash balance pension plan or PPL's qualified and non-qualified non-contributory defined benefit pension plans with benefits based on length of service and final average pay, as defined by the plans. Effective January 1, 2012, these plans were closed to newly hired salaried employees. Newly hired bargaining unit employees will continue to be eligible under these plans based on their collective bargaining agreements. Salaried employees hired on or after January 1, 2012 will be eligible to participate in the new PPL Retirement Savings Plan, a 401 (k) savings plan with enhanced employer matching. The changes to the plans are not expected to have a significant near-term cost impact.

(PPL, PPL Energy Supply, LKE and LG&E)

Following are the net periodic defined benefit costs (credits) of the plans sponsored by PPL, PPL Energy Supply, LKE and LG&E for the three months ended March 31.

	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.			
	2012	2011	2012	2011	2012	2011
PPL						
Service cost	$ 26	$ 24	$ 13	$ 5	$ 3	$ 3
Interest cost	56	55	84	39	8	8
Expected return on plan assets	(66)	(62)	(111)	(52)	(6)	(6)
Amortization of:						
Transition obligation					1	
Prior service cost	6	6	1	1		
Actuarial (gain) loss	10	6	20	14	1	2
Net periodic defined benefit costs (credits)	$ 32	$ 29	$ 7	$ 7	$ 7	$ 7
PPL Energy Supply						
Service cost	$ 1	$ 1				
Interest cost	2	2				
Expected return on plan assets	(2)	(2)				
Amortization of:						
Actuarial (gain) loss	1					
Net periodic defined benefit costs (credits)	$ 2	$ 1				
LKE						
Service cost	$ 6	$ 6			$ 1	$ 1
Interest cost	17	17			2	3
Expected return on plan assets	(18)	(16)			(1)	(1)
Amortization of:						
Prior service cost	1	1			1	1
Actuarial (gain) loss	5	5				
Net periodic defined benefit costs (credits)	$ 11	$ 13			$ 3	$ 4
LG&E						
Interest cost	$ 4	$ 4				
Expected return on plan assets	(5)	(4)				
Amortization of:						
Prior service cost	1					
Actuarial (gain) loss	3	3				
Net periodic defined benefit costs (credits)	$ 3	$ 3				

(PPL Energy Supply, PPL Electric, LG&E and KU)

In addition to the specific plans they sponsor, PPL Energy Supply and its subsidiaries are also allocated costs of defined benefit plans sponsored by PPL Services and LG&E is allocated costs of defined benefit plans sponsored by LKE based on their participation in those plans, which management believes are reasonable. PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric is allocated costs of defined benefit plans sponsored by PPL Services and KU is allocated costs of defined benefit plans sponsored by LKE based on their participation in those plans, which management believes are reasonable. PPL Services allocated the following net periodic benefit costs to PPL Energy Supply and PPL

Electric and LKE allocated the following net periodic benefit costs to LG&E and KU, including amounts applied to accounts that are further distributed between capital and expense for the three months ended March 31.

	2012	2011
PPL Energy Supply	$ 10	$ 7
PPL Electric	8	6
LG&E	3	4
KU	4	6

Expected Cash Flows - U.K. Pension Plans

(PPL)

During the three months ended March 31, 2012, WPD adjusted its expected pension contributions for 2012 to $307 million from $161 million as disclosed in PPL's 2011 Form 10-K. As of April 30, 2012, contributions of $186 million have been made. The increased contributions are being made to prepay future contribution requirements to fund pension plan deficits.

10. Commitments and Contingencies

Energy Purchase Commitments

(PPL and PPL Energy Supply)

In 2008, PPL EnergyPlus acquired the rights to an existing long-term tolling agreement associated with the output of the Ironwood Facility. Under the agreement, PPL EnergyPlus has control over the plant's dispatch into the electricity grid and supplies the natural gas necessary to operate the plant. The tolling agreement extends through 2021. In April 2012 an indirect, wholly owned subsidiary of PPL Energy Supply acquired the owner of the Ironwood Facility. See Note 8 for information on the Ironwood Acquisition.

(PPL and PPL Electric)

In 2009, the PUC approved PPL Electric's procurement plan for the period January 2011 through May 2013. To date, PPL Electric has conducted 11 of its 14 planned competitive solicitations. The solicitations include a mix of long-term and short-term purchases ranging from five months to ten years to fulfill PPL Electric's obligation to provide for customer supply as a PLR. In May 2012, PPL Electric filed a plan with the PUC to purchase its electric supply for default customers for the period June 2013 through May 2015. The plan proposes to buy this electricity twice a year, beginning in April 2013.

(PPL Energy Supply and PPL Electric)

See Note 11 for information on the power supply agreements between PPL EnergyPlus and PPL Electric.

Legal Matters

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

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

TC2 Construction *(PPL, LKE, LG&E and KU)*

In June 2006, LG&E and KU, as well as the Indiana Municipal Power Agency and Illinois Municipal Electric Agency (collectively, TC2 Owners), entered into a construction contract regarding the TC2 project. The contract is generally in the form of a turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price. During 2009 and 2010, the TC2 Owners received several contractual notices from the TC2 construction contractor asserting historical force majeure and excusable event claims for a number of adjustments to the contract price, construction schedule, commercial operations date, liquidated damages or other relevant provisions. In September 2010, the TC2 Owners and the construction contractor agreed to a settlement to resolve the force majeure and excusable event claims occurring through July 2010, under the TC2 construction contract, which settlement provided for a limited, negotiated extension of the contractual commercial operations date and/or relief from liquidated damage calculations. With limited exceptions, the TC2 Owners took care, custody and control of TC2 in January 2011. Pursuant to certain amendments to the construction agreement, the contractor will complete modifications to the combustion system prior to certain dates to allow operation of TC2 on all specified fuels categories. The provisions of the construction agreement relating to liquidated damages were also amended. In September 2011, the TC2 Owners and the construction contractor entered into a further amendment to the construction agreement settling, among other matters, certain historical change order, labor rate and prior liquidated damages amounts. The remaining issues are still under discussion with the contractor. PPL, LKE, LG&E and KU cannot currently predict the outcome of this matter or the potential impact on the capital costs of this project.

(PPL and PPL Energy Supply)

Montana Hydroelectric Litigation

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

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

Following an October 2007 trial of this matter on damages, in June 2008, the Montana District Court awarded the State retroactive compensation of approximately $35 million for the 2000-2006 period and approximately $6 million for 2007 compensation. Those unpaid amounts accrued interest at 10% per year. The Montana District Court also deferred determination of compensation for 2008 and future years to the Montana State Land Board. In October 2008, PPL Montana appealed the decision to the Montana Supreme Court, requesting a stay of judgment and a stay of the Land Board's authority to assess compensation for 2008 and future periods. In March 2010, the Montana Supreme Court substantially affirmed the 2008 Montana District Court decision.

In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting review of this matter. In June 2011, the U.S. Supreme Court granted PPL Montana's petition, and in February 2012 the U.S. Supreme Court issued a decision overturning the Montana Supreme Court decision and remanded the case to the Montana Supreme Court for further proceedings consistent with the U.S. Supreme Court's opinion. As a result, in the fourth quarter of 2011, PPL Montana reversed its total loss accrual of $89 million ($53 million after-tax) which had been recorded prior to the U.S. Supreme Court decision. PPL Montana believes the U.S. Supreme Court decision resolves certain questions of liability in this case in favor of PPL Montana and leaves open for reconsideration by Montana courts, consistent with the findings of the U.S. Supreme Court, certain other questions. In March 2012, the case was returned to the Montana Supreme Court and in April 2012 remanded to the Montana First Judicial District Court. PPL Montana has concluded it is no longer probable, but it remains reasonably possible, that a loss has been incurred. While unable to estimate a range of loss, PPL Montana believes that any such amount should not be material.

Bankruptcy of SMGT

In October 2011, SMGT, a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus expiring in June 2019 (SMGT Contract), filed for protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Montana. At the time of the bankruptcy filing, SMGT was PPL EnergyPlus' largest unsecured credit exposure.

The SMGT Contract provided for fixed volume purchases on a monthly basis at established prices. Pursuant to a court order and subsequent stipulations entered into between the SMGT bankruptcy trustee and PPL EnergyPlus, since the date of its Chapter 11 filing through January 2012, SMGT continued to purchase electricity from PPL EnergyPlus at the price specified in the SMGT Contract, and made timely payments for such purchases, but at lower volumes than as prescribed in the SMGT Contract. In January 2012, the trustee notified PPL EnergyPlus that SMGT would not purchase electricity under the SMGT Contract for the month of February. In March 2012, the U.S. Bankruptcy Court for the District of Montana issued an order approving the request of the SMGT trustee and PPL EnergyPlus to terminate the SMGT Contract. As a result, the SMGT

Contract was terminated effective April 1, 2012, allowing PPL EnergyPlus to resell the electricity previously contracted to SMGT under the SMGT Contract to other customers.

PPL EnergyPlus' receivable under the SMGT Contract totaled approximately $22 million at March 31, 2012, which has been fully reserved. No assurance can be given as to the collectability of the receivable.

At this time, PPL Energy Supply cannot predict the prices and other terms on which it will be able to market to third parties the power that SMGT will not purchase from PPL EnergyPlus due to the termination of the SMGT Contract.

Regulatory Issues

(PPL, PPL Electric, LKE, LG&E and KU)

See Note 6 for information on regulatory matters related to utility rate regulation.

Enactment of Financial Reform Legislation *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

In July 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act includes provisions that impose derivative transaction reporting requirements and require most over-the-counter derivative transactions to be executed through an exchange and to be centrally cleared. The Dodd-Frank Act also provides that the U.S. Commodity Futures Trading Commission (CFTC) may impose collateral and margin requirements for over-the-counter derivative transactions, as well as capital requirements for certain entity classifications. Final rules on major provisions in the Dodd-Frank Act are being established through rulemakings, and the CFTC generally has postponed implementation until the later of July 16, 2012 or when required key final rules are issued (e.g. definitional rules for "swap" and "swap dealer"). In April 2012, the CFTC approved the Final Rule (Final Rule) defining key terms such as "swap dealer." The definition of swap dealer, among other things, provides a significantly higher *de minimis* threshold amount of annual derivative transactions in which a party must have engaged in order to be classified as a swap dealer than was provided for in the CFTC's proposed rule, and is an amount that would not currently result in the Registrants being deemed swap dealers. There are numerous other provisions in the Final Rule, however, that the Registrants have not yet analyzed that could result in their being subject to the more onerous compliance requirements applicable to swap dealers. Even if the Registrants are not ultimately subject to the compliance requirements applicable to swap dealers, the Dodd-Frank Act and its implementing regulations nevertheless will impose on them significant additional and potentially costly recordkeeping and reporting requirements. Also, the Registrants could face significantly higher operating costs or may be required to post additional collateral if they are subject to margin requirements as ultimately adopted in the implementing regulations of the Dodd-Frank Act. The Registrants will continue to evaluate the provisions of the Dodd-Frank Act and its implementing regulations. At this time, the Registrants cannot predict the impact that the law or its implementing regulations will have on their businesses or operations, or the markets in which they transact business, but could incur material costs related to compliance with the Dodd-Frank Act.

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

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

In addition, in February 2011, PPL, and several other generating companies and utilities filed a complaint in U.S. District Court in New Jersey challenging the Act on the grounds that it violates well-established principles under the Supremacy Clause and the Commerce Clause of the U.S. Constitution. In this action, the plaintiffs request declaratory and injunctive relief barring implementation of the Act by the Commissioners of the BPU. In October 2011, the court denied the BPU's motion to dismiss the proceeding and the litigation is moving forward. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

Maryland Capacity Order

In April 2012, the Maryland Public Service Commission (MD PSC) ordered three electric utilities in Maryland to enter into long-term contracts to support the construction of new electric generating facilities in Maryland, specifically a 661 MW natural gas-fired combined-cycle generating facility to be owned by CPV Maryland, LLC. PPL believes the intent and effect of the action by the MD PSC is to encourage the construction of new generation in Maryland even when, under the FERC-approved PJM economic model, such new generation would not be economic. The MD PSC action could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to encourage necessary generation investment throughout PJM.

In April 2012, PPL and several other generating companies filed a complaint in U.S. District Court in Maryland challenging the MD PSC order on the grounds that it violates well-established principles under the Supremacy and Commerce clauses of the U.S. Constitution. In this action, the plaintiffs request declaratory and injunctive relief barring implementation of the order by the Commissioners of the MD PSC. PPL, PPL Energy Supply, and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

Pacific Northwest Markets *(PPL and PPL Energy Supply)*

Through its subsidiaries, PPL Energy Supply made spot market bilateral sales of power in the Pacific Northwest during the period from December 2000 through June 2001. Several parties subsequently claimed refunds at FERC as a result of these sales. In June 2003, the FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. In August 2007, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC's decision and ordered the FERC to consider additional evidence. In October 2011, FERC initiated proceedings to consider additional evidence.

Although PPL and its subsidiaries believe that they have not engaged in any improper trading or marketing practices affecting the Pacific Northwest markets, PPL and PPL Energy Supply cannot predict the outcome of the above-described proceedings or whether any subsidiaries will be the subject of any additional governmental investigations or named in other lawsuits or refund proceedings. Consequently, PPL and PPL Energy Supply cannot estimate a range of reasonably possible losses, if any, related to this matter.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

FERC Market-Based Rate Authority

In 1998, the FERC authorized LG&E and KU and PPL EnergyPlus to make wholesale sales of electric power and related products at market-based rates. In those orders, the FERC directed LG&E and KU and PPL EnergyPlus, respectively, to file an updated market analysis within three years after the order, and every three years thereafter. Since then, periodic market-based rate filings with the FERC have been made by LG&E and KU, and PPL EnergyPlus, PPL Electric, PPL Montana and most of PPL Generation's subsidiaries. These filings consisted of a Northwest market-based rate filing for PPL Montana and a Northeast market-based rate filing for most of the other PPL subsidiaries in PJM's region. In June 2011, FERC approved PPL's market-based rate update for the Eastern region and PPL's market-based rate update for the Western region. Also, in June 2011, PPL filed its market-based rate update for the Southeast region, including LG&E and KU in addition to PPL EnergyPlus. In June 2011, the FERC issued an order approving LG&E's and KU's request for a determination that they no longer be deemed to have market power in the BREC balancing area and removing restrictions on their market-based rate authority in such region.

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

Energy Policy Act of 2005 - Reliability Standards

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

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

LG&E, KU , PPL Electric and certain subsidiaries of PPL Energy Supply monitor their compliance with the Reliability Standards and continue to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans, as required. The resolution of a number of potential violations is pending. Any regional reliability entity determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC. The Registrants cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any, other than the amounts currently recorded.

In the course of implementing its program to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time.

Environmental Matters - Domestic

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

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

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Air

To comply with air emissions requirements and certain other environmental requirements as described below, PPL's forecast for capital expenditures reflects a best estimate projection of expenditures that may be required within the next five years. Such projections total $3.1 billion for LG&E and KU and include $100 million for LG&E and $400 million for KU associated with approved ECR plans through 2013 to achieve emissions reductions and manage coal combustion residuals. The projections also include $1.4 billion for LG&E and $900 million for KU associated with the recently approved 2011 ECR Plans for additional expenditures to comply with new clean air rules and manage coal combustion residuals and an additional $300 million for other environmental expenditures. Such projections for PPL Energy Supply are $130 million. Actual costs (including capital, allowance purchases and operational modifications) may be significantly lower or higher depending on the final requirements and market conditions. Certain environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are subject to recovery through the ECR.

CSAPR (formerly Clean Air Transport Rule)

In July 2011, the EPA adopted the CSAPR, which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. The CSAPR replaces the EPA's previous CAIR which was invalidated by the U.S. Court of Appeals for the District of Columbia Circuit (the Court) in July 2008. CAIR subsequently was effectively reinstated by the Court in December 2008, pending finalization of the Transport Rule. Like CAIR and the proposed Transport Rule, the CSAPR only applies to PPL's fossil-fueled generating plants located in Kentucky and Pennsylvania.

The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxides. The CSAPR establishes new sulfur dioxide emission allowance cap and trade programs that are completely independent of, and more stringent than, the current Acid Rain Program. The CSAPR also establishes nitrogen oxides emission allowance cap and trade programs to replace the existing programs. All trading is more restrictive than previously under CAIR. The CSAPR provides for two-phased programs of sulfur dioxide and nitrogen oxide emissions reductions, with initial reductions in 2012 and more stringent reductions in 2014.

In December 2011, the Court stayed implementation of the CSAPR and left CAIR in effect pending a final decision on the validity of the rule. In February, the EPA made revisions to the rule. Oral argument on legal challenges to the CSAPR has been held, and a final decision on the validity of the rule is expected in 2012.

With respect to the Kentucky fossil-fueled generating plants, the stay of the CSAPR will initially only impact the unit dispatch order. With the return of the CAIR and the Kentucky companies' significant number of sulfur dioxide allowances, those units will be dispatched with lower operating cost, but slightly higher sulfur dioxide and nitrogen oxide emissions. However, a key component of the Court's final decision, even if the CSAPR is upheld, will be whether the ruling delays the implementation of the CSAPR by one year for both Phases I and II, or instead continues to require the significant sulfur dioxide and nitrogen oxide reductions associated with Phase II to begin in 2014. LG&E's and KU's CSAPR compliance strategy is based on over-compliance during Phase I to generate allowances sufficient to cover the expected shortage during the first two years of Phase II (2014 and 2015) when additional pollution control equipment will be installed. Should Phase I of the CSAPR be shortened to one year, it will be more difficult and costly to provide enough excess allowances in one year to meet the shortage projected for 2014 and 2015.

PPL Energy Supply's fossil-fueled generating plants can meet both the CAIR and the stayed CSAPR sulfur dioxide emission requirements with the existing scrubbers that were placed in service in 2008 and 2009. To meet nitrogen oxide standards, under both the CAIR and the stayed CSAPR, PPL Energy Supply would need to buy allowances or make operational changes, the costs of which are not anticipated to be significant.

National Ambient Air Quality Standards

In addition to the reductions in sulfur dioxide and nitrogen oxide emissions required under the CSAPR for the Pennsylvania and Kentucky plants, PPL's fossil-fueled generating plants, including those in Montana, may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates.

In June 2010, the EPA finalized a new one-hour standard for sulfur dioxide, and states are required to identify areas that meet those standards and areas that are in non-attainment. For non-attainment areas, states are required to develop plans by 2014 to achieve attainment by 2017. For areas in attainment or that are unclassifiable, states are required to develop maintenance plans by mid-2013 that demonstrate continued attainment.

PPL, PPL Energy Supply, LKE, LG&E and KU anticipate that some of the measures required for compliance with the CAIR or the CSAPR such as upgraded or new sulfur dioxide scrubbers at some of their plants or, in the case of LG&E and KU, upgraded or new sulfur dioxide scrubbers at the Mill Creek plant and retirement of the Cane Run, Green River, and Tyrone plants, will also be necessary to achieve compliance with the new one-hour sulfur dioxide standard. If additional reductions were to be required, the economic impact could be significant.

Mercury and Other Hazardous Air Pollutants

In May 2011, the EPA published a proposed regulation providing for stringent reductions of mercury and other hazardous air pollutants. On February 16, 2012, the EPA published the final rule, known as the Mercury and Air Toxics Standards (MATS), with an effective date of April 16, 2012. The rule is being challenged by industry groups and states.

The rule provides for a three-year compliance deadline with the potential for a one-year extension as provided under the statute. Based on their assessment of the need to install pollution control equipment to meet the provisions of the proposed rule, LG&E and KU filed requests with the KPSC for environmental cost recovery to facilitate moving forward with plans to install environmental controls including sorbent injection and fabric-filter baghouses to remove certain hazardous air pollutants. Recovery of the cost of certain controls was granted by a KPSC order issued in December 2011. The cost for these controls is reflected in the combined costs of $3.1 billion for LG&E and KU noted under "Air" above. LG&E and KU have also filed requests with the KPSC for retirement of coal-fired generating units at the Cane Run, Green River, and Tyrone plants and replacement of those units with natural gas-fired generating units to be constructed or purchased. With the publication of the final MATS rule, LG&E and KU are currently assessing whether changes in the final rule warrant revision of their approved compliance plans.

With respect to PPL Energy Supply's Pennsylvania plants, PPL believes that these plants may require installation of chemical additive systems, the cost of which is not expected to be material. With respect to the PPL Montana plants, modifications to the current air pollution controls installed on Colstrip may be required, the cost of which also is not expected to be material. For the Corette plant, additional controls are being evaluated, the cost of which could be significant. PPL Energy Supply, LG&E and KU are continuing to conduct in-depth reviews of the MATS.

Regional Haze and Visibility

In January 2012, the EPA proposed limited approval of the Pennsylvania Regional Haze State Implementation Plan. That proposed action would essentially approve PPL's analysis that further particulate controls at PPL Energy Supply's Pennsylvania plants are not warranted. The limited approval does not address deficiencies of the state plan arising from the remand of the CAIR rule. Previously, the EPA had determined that implementation of the CAIR requirements would meet regional haze BART (Best Available Retrofit Technology) requirements for sulfur dioxide and nitrogen oxides. In December 2011, the EPA proposed that implementation of the CSAPR would also meet the BART. The EPA is expected to make a final rule this year. This is expected to address that deficiency.

In Montana, the EPA Region 8 is developing the regional haze plan as the Montana Department of Environmental Quality declined to develop a BART state implementation plan at this time. PPL submitted to the EPA its analyses of the visibility impacts of sulfur dioxide, nitrogen oxides and particulate matter emissions for Colstrip Units 1 and 2 and Corette. PPL's analyses concluded that further reductions are not warranted. PPL has also submitted data and a high-level analysis of various air emission control options to reduce air emissions related to the non-BART-affected emission sources of Colstrip Units 3 and 4 under the Reasonable Further Progress goals of the Regional Haze rules. The analysis shows that any incremental reductions would not be cost effective and that further analysis is not warranted.

In March 2012, the EPA issued its draft Federal Implementation Plan (FIP) of the Regional Haze Rule for Montana. The draft FIP identified no additional controls for Corette or Colstrip 3 and 4. Under the draft FIP, Colstrip Units 1 and 2 would require additional controls (such as, SNCR, separated overfire air on the low nitrogen oxide burners, lime injection and additional scrubber vessels) to meet the proposed more stringent nitrogen oxide and sulfur dioxide limits. The cost of these potential additional controls could be significant. PPL Energy Supply is currently analyzing the draft FIP and assessing various courses of action.

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

New Source Review (NSR)

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

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

In March 2009, KU received a notice alleging that KU violated certain provisions of the Clean Air Act's rules governing NSR and prevention of significant deterioration by installing sulfur dioxide scrubbers and SCR controls at its Ghent generating plant without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. In December 2009, the EPA issued an information request on this matter. KU has exchanged settlement proposals and other information with the EPA regarding imposition of additional permit limits and emission controls and anticipates continued settlement negotiations. In addition, any settlement or future litigation could potentially encompass a September 2007 notice of violation alleging opacity violations at the plant. Depending on the provisions of a final settlement or the results of litigation, if any, resolution of this matter could involve significant increased operating and capital expenditures. PPL, LKE and KU cannot predict the final outcome of this matter, but currently do not expect such outcome to result in material losses above the respective amounts accrued by KU.

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

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

TC2 Air Permit (PPL, LKE, LG&E and KU)

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

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Global Climate Change

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

Greenhouse Gas Legislation

While climate change legislation was considered prior to 2010, the outcome of the 2010 elections has halted the debate on such legislation. The timing and elements of any future legislation addressing GHG emission reductions are uncertain at this time. In the current Congress, legislation barring the EPA from regulating GHG emissions under the existing authority of the Clean Air Act has been passed by the U.S. House of Representatives. Various bills providing for barring or delaying the EPA from regulating GHG emissions have been introduced in the U.S. Senate, but the prospects for passage of such legislation remain uncertain. At the state level, the results of the 2010 elections in Pennsylvania reduced the likelihood of GHG legislation in the near term, and there are currently no prospects for such legislation in Kentucky or Montana.

Greenhouse Gas Regulations and Tort Litigation

As a result of the April 2007 U.S. Supreme Court decision that the EPA has the authority under the Clean Air Act to regulate GHG emissions from new motor vehicles, in April 2010 the EPA and the U.S. Department of Transportation issued light-duty vehicle emissions standards that apply to 2012 model year vehicles. The EPA has also clarified that this standard, beginning in 2011, also authorizes regulation of GHG emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act. As a result, any new sources or major modifications to existing GHG sources causing a net significant emissions increase requires the BACT permit limits for GHGs. The EPA has proposed guidance for conducting a BACT analysis for projects that trigger such a review. In addition, in April 2012, the EPA proposed New Source Performance Standards (NSPS) for carbon dioxide emissions from new coal-fired generating units, combined-cycle natural gas units, and integrated gasification combined-cycle units.

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

Pennsylvania has not stated an intention to join the RGGI, but enacted the Pennsylvania Climate Change Act of 2008 (PCCA). The PCCA established a Climate Change Advisory Committee to advise the PADEP on the development of a Climate Change Action Plan. In December 2009, the Advisory Committee finalized its Climate Change Action Report which identifies specific actions that could result in reducing GHG emissions by 30% by 2020. Some of the proposed actions, such as a mandatory 5% efficiency improvement at power plants, could be technically unachievable. To date, there have been no regulatory or legislative actions taken to implement the recommendations of the report. In addition, legislation has been introduced that would, if enacted, accelerate solar supply requirements and restrict eligible solar projects to those located in Pennsylvania. PPL cannot predict at this time whether this legislation will be enacted.

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

In November 2008, the Governor of Kentucky issued a comprehensive energy plan including non-binding targets aimed at promoting improved energy efficiency, development of alternative energy, development of carbon capture and sequestration projects, and other actions to reduce GHG emissions. In December 2009, the Kentucky Climate Action Plan Council was established to develop an action plan addressing potential GHG reductions and related measures. To date the state has yet to issue a final plan. The impact of any such plan is not now determinable, but the costs to comply with the plan could be significant.

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting plants, and the law remains unsettled on these claims. In September 2009, the U.S. Court of Appeals for the Second Circuit in the case of AEP v. Connecticut reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In June 2011, the U.S. Supreme Court overturned the lower court and held that such federal common law claims were displaced by the Clean Air Act and regulatory actions of the EPA. In Comer v. Murphy Oil, the U.S. Court of Appeals for the Fifth Circuit declined to overturn a district court ruling that plaintiffs did not have standing to pursue state common law claims against companies that emit GHGs. The complaint in the Comer case named the previous indirect parent of LKE as a defendant based upon emissions from the Kentucky plants. In January 2011, the Supreme Court denied a petition to reverse the Court of Appeals' ruling. In May 2011, the plaintiffs in the Comer case filed a substantially similar complaint in federal district court in Mississippi against 87 companies, including KU and three other indirect subsidiaries of LKE, under a Mississippi statute that allows the re-filing of an action in certain circumstances. In March 2012, the court granted defendants' motions to dismiss the state common law claims because plaintiffs had previously raised the same claims, plaintiffs lacked standing, plaintiff's claims were displaced by the Clean Air Act, and other grounds. In April 2012, plaintiffs filed a notice of appeal in the U.S. Court of Appeals for the Fifth Circuit. Additional litigation in federal and state courts over these issues is continuing. PPL, LKE and KU cannot predict the outcome of this litigation or estimate a range of reasonably possible losses, if any.

In 2011, PPL's power plants emitted approximately 74 million tons of carbon dioxide compared with 68 million tons in 2010. The 2011 total reflects 36 million tons from PPL Generation and 38 million tons from LG&E's and KU's generating fleet. All tons are U.S. short tons (2,000 lbs/ton).

Renewable Energy Legislation (PPL and PPL Energy Supply)

There has been interest in renewable energy legislation at both the state and federal levels. At the federal level, House and Senate bills proposed in the 111th Congress would have imposed mandatory renewable energy supply and energy efficiency requirements in the 15% to 20% range by approximately 2020. Earlier in 2011, there were discussions regarding a Clean Energy Standard (CES) that addressed not only renewables but also encouraged clean energy requirements (as yet to be defined). At this time, neither the renewable energy debate nor the CES discussion is expected to gain momentum at the federal or state levels (beyond what is otherwise already required in Pennsylvania and Montana) in the near term.

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

Water/Waste

Coal Combustion Residuals (CCRs) (PPL, PPL Energy Supply, LKE, LG&E and KU)

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

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

The EPA is continuing to evaluate the unprecedented number of comments it received on its June 2010 proposed regulations. In October 2011, the EPA issued a Notice of Data Availability (NODA) that requests comments on selected documents that the EPA received during the comment period for the proposed regulations. Comments were submitted on the NODA in November 2011. In addition, the U.S. House of Representatives in October 2011 approved a bill to modify Subtitle D of the RCRA to provide for the proper management and disposal of CCRs and that would preclude the EPA from regulating CCRs under Subtitle C of the RCRA. The bill has been introduced in the Senate and the prospect for passage of this legislation is uncertain.

In January 2012, a coalition of environmental groups filed a 60-day notice of intent to sue the EPA for failure to perform nondiscretionary duties under RCRA, which could require a hard deadline for EPA to issue strict CCR regulations. In February 2012, a CCR recycling company also issued a 60-day notice of intent to sue the EPA over its timeliness in issuing CCR regulations, but that company requests that the EPA take a Subtitle D approach that would allow for continued recycling of CCRs. The coalition filed its lawsuit in April 2012. The EPA has indicated that they will issue another NODA later this spring to request comments on the extensive data that the EPA collected from coal-fired power plant operators as part of the EPA's Effluent Limitations Guideline rule modification process which the EPA wants to use in the CCR regulatory development process.

PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the final requirements of the EPA's CCR regulations or potential changes to the RCRA and what impact they would have on their facilities, but the economic impact could be significant.

Martins Creek Fly Ash Release (PPL and PPL Energy Supply)

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

The PADEP filed a complaint in Pennsylvania Commonwealth Court against PPL Martins Creek and PPL Generation, alleging violations of various state laws and regulations and seeking penalties and injunctive relief. PPL and the PADEP have settled this matter. The settlement also required PPL to submit a report on the completed studies of possible natural resource damages. PPL subsequently submitted the assessment report to the Pennsylvania and New Jersey regulatory agencies and has continued discussing potential natural resource damages and mitigation options with the agencies. Subsequently, in August 2011 the PADEP submitted its National Resource Damage Assessment report to the court and to the interveners. In December 2011, the interveners commented on the PADEP report and in February 2012 the PADEP and PPL filed separate responses with the court. In March 2012, the court dismissed the interveners' case, but the interveners have appealed the dismissal to the Pennsylvania Supreme Court. The settlement agreement for the Natural Resources Damage Claim has not yet been submitted for public comments, which is the next phase in the process of finalizing the claim.

Through March 31, 2012, PPL Energy Supply has spent $28 million for remediation and related costs and an insignificant remediation liability remains on the balance sheet. PPL and PPL Energy Supply cannot be certain of the outcome of the natural resource damage assessment or the associated costs, the outcome of any lawsuit that may be brought by citizens or businesses or the exact nature of any other regulatory or other legal actions that may be initiated against PPL, PPL Energy Supply or their subsidiaries as a result of the disposal basin release. However, PPL and PPL Energy Supply currently do not expect such outcomes to result in material losses above the amounts currently recorded.

Seepages and Groundwater Infiltration - Pennsylvania, Montana and Kentucky

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various PPL plants. PPL has completed or is completing assessments of seepages or groundwater infiltration at various facilities and has completed or is working with agencies to implement abatement measures, where required. A range of reasonably possible losses cannot currently be estimated.

(PPL and PPL Energy Supply)

In 2007, six plaintiffs filed a lawsuit in the Montana Sixteenth Judicial District Court against the Colstrip plant owners asserting property damage due to seepage from wastewater ponds at Colstrip. A settlement agreement was reached in July 2010 which would have resulted in a payment by PPL Montana, but certain of the plaintiffs later alleged the settlement was not final. The Colstrip plant owners filed a motion to enforce the settlement and in October 2011 the court granted the motion and ordered the settlement to be completed in 60 days. The plaintiffs have appealed the October order to the Montana Supreme Court, and the court's decision is expected in the second half of 2012. The settlement ordered by the district court is, therefore, not final and PPL and PPL Energy Supply cannot predict the outcome of the appeal, although PPL Montana's share of any final settlement in excess of amounts recorded is not expected to be significant.

Clean Water Act 316(b) (PPL, PPL Energy Supply, LKE, LG&E and KU)

The EPA finalized requirements in 2004 for new or modified cooling water intake structures. These requirements affect where generating plants are built, establish intake design standards and could lead to requirements for cooling towers at new and modified power plants. In 2009, however, the U.S. Supreme Court ruled that the EPA has discretion to use cost-benefit analysis in determining the best technology available for minimizing adverse environmental impact to aquatic organisms. The EPA published the proposed rule in April 2011. The industry and PPL reviewed the proposed rule and submitted comments. The EPA is evaluating comments and meeting with industry groups to discuss options. The final rule is expected to be issued in 2012. The proposed rule contains two requirements to reduce impact to aquatic organisms. The first requires all existing facilities to meet standards for the reduction of mortality of aquatic organisms that become trapped against water intake screens regardless of the levels of mortality actually occurring or the cost of achieving the requirements. The second requirement is to determine and install the best technology available to reduce mortality of aquatic organisms that are pulled through the plant's cooling water system. A form of cost-benefit analysis is allowed for this second requirement. This process involves a site-specific evaluation based on nine factors including impacts to energy delivery reliability and remaining useful life of the plant. PPL, PPL Energy Supply, LKE, LG&E and KU will be unable to determine the exact impact until a final rule is issued, the required studies have been completed, and each state in which they operate has decided how to implement the rule.

Effluent Limitations Guidelines and Standards (PPL, PPL Energy Supply, LKE, LG&E and KU)

In October 2009, the EPA released its Final Detailed Study of the Steam Electric Power Generating effluent limitations guidelines and standards. The EPA is expected to propose modifications to these regulations in 2012 and issue the final regulations in 2014. PPL expects the revised guidelines and standards to be more stringent than the current standards especially for sulfur dioxide scrubber wastewater and ash basin discharges, which could result in more stringent discharge permit limits. In the interim, PPL, PPL Energy Supply, LKE, LG&E and KU are each unable to predict whether the EPA and the states may impose more stringent limits on a case-by-case best professional judgment basis under existing authority as permits are renewed.

Other Issues (PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

In 2006, the EPA significantly decreased to 10 parts per billion (ppb) the drinking water standards related to arsenic. In Pennsylvania, Montana and Kentucky, this arsenic standard has been incorporated into the states' water quality standards and could result in more stringent limits in NPDES permits for PPL's Pennsylvania, Montana and Kentucky plants. Subsequently, the EPA developed a draft risk assessment for arsenic that increases the cancer risk exposure by more than 20 times, which would lower the current standard from 10 ppb to 0.1 ppb. If the lower standard becomes effective, costly treatment would be required to attempt to meet the standard and, at this time, there is no assurance that it could be achieved. PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the outcome of the draft risk assessment and what impact, if any, it would have on their plants, but the costs could be significant.

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxics Substance Control Act, which currently allow certain PCB articles to remain in use. In April 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. This rulemaking could lead to a phase-out of all PCB-containing equipment. The EPA is planning to propose the revised regulations in late 2012 or 2013. PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU cannot predict at this time the outcome of these proposed EPA regulations and what impact, if any, they would have on their facilities, but the costs could be significant.

PPL has signed a Consent Order and Agreement (the Brunner COA) with the PADEP under which it agreed, under certain conditions, to take further actions to minimize the possibility of fish kills at its Brunner Island plant. Fish are attracted to warm water in the power plant discharge channel, especially during cold weather. Debris at intake pumps can result in a unit trip or reduction in load, causing a sudden change in water temperature. PPL has constructed a barrier to prevent debris from entering the river water intake area at a cost that was not material.

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

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County plant. In November 2010, the Cabinet issued a final order upholding the permit. In December 2010, the environmental groups appealed the order to state court. PPL, LKE, LG&E, and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible losses, if any.

The EPA and the Army Corps of Engineers are working on a guidance document that will expand the federal government's interpretation of what constitutes "waters of the United States" (WOUS) subject to regulation under the Clean Water Act. This change has the potential to affect generation and delivery operations, with the most significant effect being the potential elimination of the existing regulatory exemption for plant waste water treatment systems. The costs that may be imposed as a result of any eventual expansion of this interpretation cannot reliably be estimated at this time.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Superfund and Other Remediation

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

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

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which PPL currently lacks information, the costs of remediation and other liabilities could be substantial. PPL and its subsidiaries also could incur other non-remediation costs at sites included in current consent orders or other contaminated sites which could be significant. PPL is unable to estimate a range of reasonably possible losses, if any, related to these matters.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing plants. PPL cannot estimate a range of reasonably possible losses, if any, related to these matters.

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

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in material additional costs for the Registrants.

Environmental Matters - WPD *(PPL)*

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

Other

Nuclear Insurance *(PPL and PPL Energy Supply)*

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

Under the property and replacement power insurance programs, PPL Susquehanna could be assessed retroactive premiums in the event of the insurers' adverse loss experience. At March 31, 2012, this maximum assessment was $44 million. Effective April 1, 2012, this maximum assessment was increased to $48 million.

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

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

At March 31, 2012, the property, replacement power and nuclear incident insurers maintained an A.M. Best financial strength rating of A ("Excellent").

Guarantees and Other Assurances

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

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

(PPL)

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

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The table below details guarantees provided as of March 31, 2012. The total recorded liability at March 31, 2012 and December 31, 2011 was $15 million and $14 million for PPL and $11 million for both periods for LKE. Other than as noted in the descriptions for "WPD guarantee of pension and other obligations of unconsolidated entities," the probability of expected payment/performance under each of these guarantees is remote.

		Exposure at March 31, 2012 (a)	Expiration Date
PPL			
Indemnifications related to the WPD Midlands acquisition		(b)	
WPD indemnifications for entities in liquidation and sales of assets	$	295 (c)	2014 - 2018
WPD guarantee of pension and other obligations of unconsolidated entities		90 (d)	2015
Tax indemnification related to unconsolidated WPD affiliates		8 (e)	2012
PPL Energy Supply (f)			
Letters of credit issued on behalf of affiliates		21 (g)	2012 - 2014
Retrospective premiums under nuclear insurance programs		44 (h)	
Nuclear claims assessment under The Price-Anderson Act Amendments under The Energy Policy Act of 2005		235 (i)	
Indemnifications for sales of assets		262 (j)	2012 - 2025
Indemnification to operators of jointly owned facilities		6 (k)	
Guarantee of a portion of a divested unconsolidated entity's debt		22 (l)	2018
PPL Electric (m)			
Guarantee of inventory value		16 (n)	2016
LKE (m)			
Indemnification of lease termination and other divestitures		301 (o)	2021 - 2023
LG&E and KU (p)			
LG&E and KU guarantee of shortfall related to OVEC		(q)	

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

(b) Prior to PPL's acquisition, WPD Midlands Holdings Limited had agreed to indemnify certain former directors of a Turkish entity, in which WPD Midlands Holdings Limited previously owned an interest, for any liabilities that may arise as a result of an investigation by Turkish tax authorities, and PPL WEM has received a cross-indemnity from E.ON AG with respect to these indemnification obligations. Additionally, PPL subsidiaries agreed to provide indemnifications to subsidiaries of E.ON AG for certain liabilities relating to properties and assets owned by affiliates of E.ON AG that were transferred to WPD Midlands in connection with the acquisition. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.

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

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

(d) As a result of the privatization of the utility industry in the U.K., certain electric associations' roles and responsibilities were discontinued or modified. As a result, certain obligations, primarily pension-related, associated with these organizations have been guaranteed by the participating members. Costs are allocated to the members based on predetermined percentages as outlined in specific agreements. However, if a member becomes insolvent, costs can be reallocated to and are guaranteed by the remaining members. At March 31, 2012, WPD has recorded an estimated discounted liability based on its current allocated percentage of the total expected costs for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements. Therefore, they have been estimated based on the types of obligations.

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

(f) Other than the letters of credit, all guarantees of PPL Energy Supply, on a consolidated basis, also apply to PPL on a consolidated basis for financial reporting purposes.

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

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

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

(j) PPL Energy Supply's maximum exposure with respect to certain indemnifications and the expiration of the indemnifications cannot be estimated because, in the case of certain indemnification provisions, the maximum potential liability is not capped by the transaction documents and the expiration date is based on the applicable statute of limitations. The exposure and expiration dates noted are only for those cases in which the agreements provide for specific limits. The indemnification provisions described below are in each case subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of most representations and warranties.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchaser of the Long Island generation business for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including liabilities relating to certain renewable energy facilities which were previously owned by one of the PPL subsidiaries sold in the transaction but which were unrelated to the Long Island generation business. The indemnification provisions for most representations and warranties expired in the third quarter of 2011.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchasers of the Maine hydroelectric facilities for damages arising out of any breach of the representations, warranties and covenants under the respective transaction agreements and for damages arising out of certain other matters, including liabilities of the PPL Energy Supply subsidiary relating to the pre-closing ownership or operation of those hydroelectric facilities. The indemnification provisions for certain representations and warranties expired in the second quarter of 2011.

Subsidiaries of PPL Energy Supply have agreed to provide indemnification to the purchasers of certain non-core generation facilities sold in March 2011 for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreements and for damages arising out of certain other matters relating to the facilities that were the subject of the transaction, including certain reduced capacity payments (if any) at one of the facilities in the event specified PJM rule changes are proposed and become effective. The indemnification provisions for most representations and warranties expired in the first quarter of 2012.

(k) In December 2007, a subsidiary of PPL Energy Supply executed revised owners agreements for two jointly owned facilities, the Keystone and Conemaugh generating plants. The agreements require that in the event of any default by an owner, the other owners fund contributions for the operation of the generating plants, based upon their ownership percentages. The non-defaulting owners, who make up the defaulting owner's obligations, are entitled to the generation entitlement of the defaulting owner, based upon their ownership percentage. The exposure shown reflects the PPL Energy Supply subsidiary's share of the maximum obligation. The agreements do not have an expiration date.

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

(m) All guarantees of PPL Electric and LKE, on a consolidated basis, also apply to PPL on a consolidated basis for financial reporting purposes.

(n) PPL Electric entered into a contract with a third party logistics firm that provides inventory procurement and fulfillment services. Under the contract, the logistics firm has title to the inventory purchased for PPL Electric's use. Upon termination of the contract, PPL Electric has guaranteed to purchase any remaining inventory that has not been used or sold by the logistics firm at the weighted-average cost at which the logistics firm purchased the inventory, thus protecting the logistics firm from reductions in the fair value of the inventory.

(o) LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of $200 million. Certain items such as non-excluded government fines and penalties fall outside the cumulative cap. Another guarantee with a maximum exposure of $100 million covering other indemnifications expires in 2023. Certain matters are currently under discussion among the parties, including one matter currently in arbitration and a further matter for which LKE is contesting the applicability of the indemnification requirement. The matter in arbitration may be ruled upon during mid-2012, which may result in increases or decreases to the estimated liability LKE has currently recorded. The ultimate outcome of both matters cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. No additional material loss is anticipated by reason of such indemnification.

(p) All guarantees of LG&E and KU also apply to LKE on a consolidated basis for financial reporting purposes.

(q) Pursuant to a power purchase agreement with OVEC, LG&E and KU are obligated to pay a demand charge which includes, among other charges, decommissioning costs, postretirement and post employment benefits. The demand charge is expected to cover LG&E's and KU's shares of the cost of these items over the term of the contract. However, in the event there is a shortfall in covering these costs, LG&E and KU are obligated to pay their share of the excess. The maximum exposure and the expiration date of these potential obligations are not presently determinable.

The Registrants provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, no significant payments have been made with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

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

11. Related Party Transactions

PLR Contracts/Purchase of Accounts Receivable *(PPL Energy Supply and PPL Electric)*

PPL Electric holds competitive solicitations for PLR generation supply. PPL EnergyPlus has been awarded a portion of the PLR generation supply through these competitive solicitations. See Note 10 for additional information on the solicitations. PPL Electric's purchases from PPL EnergyPlus for the three months ended March 31, 2012 and 2011 totaled $22 million and $6 million. The sales and purchases are included in the Statements of Income as "Wholesale energy marketing to affiliate" by PPL Energy Supply, and as "Energy purchases from affiliate" by PPL Electric.

Under the standard Supply Master Agreement for the solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. PPL EnergyPlus is required to post collateral with PPL Electric when the aggregate credit exposure with respect to electricity, capacity and other related products to be delivered by PPL EnergyPlus exceeds a contractual credit limit. Based on the current credit rating and tangible net worth of PPL Energy Supply, as guarantor, PPL EnergyPlus' credit limit was $35 million at March 31, 2012. In no instance is PPL Electric required to post collateral to suppliers under these supply contracts.

PPL Electric's customers may choose an alternative supplier for their generation supply. See Note 2 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including PPL EnergyPlus.

At March 31, 2012, PPL Energy Supply had a net credit exposure of $42 million to PPL Electric from its commitment as a PLR supplier and from the sale of its accounts receivable to PPL Electric.

Wholesale Sales and Purchases *(LG&E and KU)*

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail native load. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail native load and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are reflected in the Statements of Income as "Electric revenue from affiliate" and "Energy purchases from affiliate" and are recorded at a price equal to the seller's fuel cost. Savings realized from such intercompany transactions are shared equally between the two companies. The volume of energy each company has to sell to the other is dependent on its native load needs and its available generation.

Allocations of Corporate Service Costs *(PPL Energy Supply, PPL Electric, LKE)*

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

	Three Months Ended March 31,	
	2012	2011
PPL Energy Supply	$ 57	$ 50
PPL Electric	42	39
LKE	5	5

Intercompany Billings by LKS *(LG&E and KU)*

LKS provides LG&E and KU with a variety of centralized administrative, management and support services. The cost of these services is directly charged to the company or, for general costs that cannot be directly attributed, charged based on predetermined allocation factors, including the following measures: number of customers, total assets, revenues, number of employees and/or other statistical information. LKS charged the amounts in the table below, which LKE management believes are reasonable, including amounts that are further distributed between capital and expense:

	Three Months Ended March 31,	
	2012	2011
LG&E	$ 41	$ 33
KU	46	49

In addition, LG&E and KU provide services to each other and to LKS. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges.

Intercompany Borrowings

(PPL Energy Supply)

A PPL Energy Supply subsidiary periodically holds revolving demand notes from certain affiliates. At March 31, 2012, there were no balances outstanding. At December 31, 2011, a note with PPL Energy Funding had an outstanding balance of $198 million, which was reflected in "Note receivable from affiliate" on the Balance Sheet. Interest earned on these revolving facilities is included in "Interest Income from Affiliates" on the Statements of Income. The interest rates on borrowings are equal to one-month LIBOR plus a spread. For the three months ended March 31, 2012 and 2011, interest earned on borrowings was insignificant.

(LKE)

LKE maintains a $300 million revolving demand note with a PPL Energy Supply subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At March 31, 2012 and December 31, 2011, there was no balance outstanding. Interest on the revolving demand note with the PPL Energy Supply subsidiary was not significant for 2012 and 2011.

After PPL's acquisition of LKE in November 2010, LKE held a note receivable from a PPL affiliate. At March 31, 2012, $5 million was outstanding compared with $15 million at December 31, 2011. The interest rates on the outstanding borrowings were 2.24% and 2.26% for the three months ended March 31, 2012 and 2011. Interest income on this note was not significant for the three months ended March 31, 2012 and 2011.

(LG&E)

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to $500 million at an interest rate based on a market index of commercial paper issues. At March 31, 2012 and December 31, 2011, there was no balance outstanding. The interest rate for the three months ended March 31, 2012 was 0.41%. Interest expense incurred on the money pool agreement with LKE and/or KU was not significant for the three months ended March 31, 2012 and 2011.

(KU)

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to $500 million at an interest rate based on a market index of commercial paper issues. At March 31, 2012 and December 31, 2011, there was no balance outstanding. The interest rate for the three months ended March 31, 2012 was 0.41%. Interest expense incurred on the money pool agreement with LKE and/or LG&E was not significant for the three months ended March 31, 2012 and 2011.

Trademark Royalties *(PPL Energy Supply)*

A PPL subsidiary owns PPL trademarks and billed certain affiliates for their use. This agreement was terminated in December 2011. PPL Energy Supply was charged $10 million of this license fee for the three months ended March 31, 2011, which was included primarily in "Other operation and maintenance" on the Statement of Income.

Other *(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

See Note 7 for a discussion regarding capital transactions by PPL Energy Supply, PPL Electric, LKE, LG&E and KU. For PPL Energy Supply, PPL Electric, LG&E and KU, refer to Note 9 for discussions regarding intercompany allocations associated with defined benefits.

12. Other Income (Expense) - net

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

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

	PPL		PPL Energy Supply	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2012	2011	2012	2011
Other Income				
Earnings on securities in NDT funds	$ 8	$ 15	$ 8	$ 15
Interest income	1	2		1
AFUDC	2	1		
Miscellaneous - Domestic	2	3	1	1
Total Other Income	13	21	9	17
Other Expense				
Economic foreign currency exchange contracts (Note 14)	18	2		
Charitable contributions	4	3	1	
WPD Midlands acquisition-related costs (Note 8)		11		
Net hedge losses associated with the 2011 Bridge Facility		7		
Miscellaneous - Domestic	6	2	3	3
Miscellaneous - U.K.	2	1		
Total Other Expense	30	26	4	3
Other Income (Expense) - net	$ (17)	$ (5)	$ 5	$ 14

The components of "Other Income (Expense) - net" for the three months ended March 31, 2012 and 2011 for PPL Electric, LKE, LG&E and KU are not significant.

13. Fair Value Measurements and Credit Concentration

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. Transfers between levels are recognized at end-of-reporting-period values. At March 31, 2012, there were no transfers between Level 1 and Level 2.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	March 31, 2012				December 31, 2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	$ 1,103	$ 1,103			$ 1,202	$ 1,202		
Restricted cash and cash equivalents (a)	230	230			209	209		
Price risk management assets:								
Energy commodities	4,371	2	$ 4,336	$ 33	3,423	3	$ 3,390	$ 30
Interest rate swaps	3		3		3		3	
Foreign currency contracts	5		5		18		18	
Cross-currency swaps	37		34	3	24		20	4
Total price risk management assets	4,416	2	4,378	36	3,468	3	3,431	34

	March 31, 2012				December 31, 2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
NDT funds:								
Cash and cash equivalents	8	8			12	12		
Equity securities								
U.S. large-cap	329	228	101		292	202	90	
U.S. mid/small-cap	133	98	35		117	87	30	
Debt securities								
U.S. Treasury	87	87			86	86		
U.S. government sponsored agency	10		10		10		10	
Municipality	84		84		83		83	
Investment-grade corporate	38		38		38		38	
Other	2		2		2		2	
Receivables (payables), net	2		2			(3)	3	
Total NDT funds	693	421	272		640	384	256	
Auction rate securities (b)	24			24	24			24
Total assets	$ 6,466	$ 1,756	$ 4,650	$ 60	$ 5,543	$ 1,798	$ 3,687	$ 58
Liabilities								
Price risk management liabilities:								
Energy commodities	$ 3,154	$ 2	$ 3,138	$ 14	$ 2,345	$ 1	$ 2,327	$ 17
Interest rate swaps	54		54		63		63	
Foreign currency contracts	13		13					
Cross-currency swaps	2		2		2		2	
Total price risk management liabilities	$ 3,223	$ 2	$ 3,207	$ 14	$ 2,410	$ 1	$ 2,392	$ 17
PPL Energy Supply								
Assets								
Cash and cash equivalents	$ 135	$ 135			$ 379	$ 379		
Restricted cash and cash equivalents	164	164			145	145		
Price risk management assets:								
Energy commodities	4,371	2	$ 4,336	$ 33	3,423	3	$ 3,390	$ 30
Total price risk management assets	4,371	2	4,336	33	3,423	3	3,390	30
NDT funds:								
Cash and cash equivalents	8	8			12	12		
Equity securities								
U.S. large-cap	329	228	101		292	202	90	
U.S. mid/small-cap	133	98	35		117	87	30	
Debt securities								
U.S. Treasury	87	87			86	86		
U.S. government sponsored agency	10		10		10		10	
Municipality	84		84		83		83	
Investment-grade corporate	38		38		38		38	
Other	2		2		2		2	
Receivables (payables), net	2		2			(3)	3	
Total NDT funds	693	421	272		640	384	256	
Auction rate securities (b)	19			19	19			19
Total assets	$ 5,382	$ 722	$ 4,608	$ 52	$ 4,606	$ 911	$ 3,646	$ 49
Liabilities								
Price risk management liabilities:								
Energy commodities	$ 3,154	$ 2	$ 3,138	$ 14	$ 2,345	$ 1	$ 2,327	$ 17
Total price risk management liabilities	$ 3,154	$ 2	$ 3,138	$ 14	$ 2,345	$ 1	$ 2,327	$ 17
PPL Electric								
Assets								
Cash and cash equivalents	$ 149	$ 149			$ 320	$ 320		
Restricted cash and cash equivalents (c)	13	13			13	13		
Total assets	$ 162	$ 162			$ 333	$ 333		
LKE								
Assets								
Cash and cash equivalents	$ 104	$ 104			$ 59	$ 59		
Restricted cash and cash equivalents (c)	27	27			29	29		
Total assets	$ 131	$ 131			$ 88	$ 88		
Liabilities								
Price risk management liabilities:								
Interest rate swaps (d)	$ 53		$ 53		$ 60		$ 60	
Total liabilities	$ 53		$ 53		$ 60		$ 60	

	March 31, 2012				December 31, 2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
LG&E								
Assets								
Cash and cash equivalents	$ 54	$ 54			$ 25	$ 25		
Restricted cash and cash equivalents (c)	27	27			29	29		
Total assets	$ 81	$ 81			$ 54	$ 54		
Liabilities								
Price risk management liabilities:								
Interest rate swaps (d)	$ 53		$ 53		$ 60		$ 60	
Total liabilities	$ 53		$ 53		$ 60		$ 60	
KU								
Assets								
Cash and cash equivalents	$ 46	$ 46			$ 31	$ 31		
Total assets	$ 46	$ 46			$ 31	$ 31		

(a) Current portion is included in "Restricted cash and cash equivalents" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(b) Included in "Other investments" on the Balance Sheets.
(c) Current portion is included in "Other current assets" on the Balance Sheets. Such amounts were insignificant at March 31, 2012 and December 31, 2011. Long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(d) Current portion is included in "Other current liabilities" and long-term portion is included in "Price risk management liabilities" on the Balance Sheets.

A reconciliation of net assets and liabilities classified as Level 3 for the three months ended March 31 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						
	2012				2011		
	Energy Commodities, net	Auction Rate Securities	Cross-Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Total
PPL							
Balance at beginning of period	$ 13	$ 24	$ 4	$ 41	$ (3)	$ 25	$ 22
Total realized/unrealized gains (losses)							
Included in earnings	18			18	1		1
Included in OCI (a)	2		2	4	1		1
Purchases					2		2
Sales					(3)		(3)
Settlements	(6)			(6)	22		22
Transfers out of Level 3	(8)		(3)	(11)	12		12
Balance at end of period	$ 19	$ 24	$ 3	$ 46	$ 32	$ 25	$ 57
PPL Energy Supply							
Balance at beginning of period	$ 13	$ 19		$ 32	$ (3)	$ 20	$ 17
Total realized/unrealized gains (losses)							
Included in earnings	18			18	1		1
Included in OCI (a)	2			2	1		1
Purchases					2		2
Sales					(3)		(3)
Settlements	(6)			(6)	22		22
Transfers out of Level 3	(8)			(8)	12		12
Balance at end of period	$ 19	$ 19		$ 38	$ 32	$ 20	$ 52

(a) "Energy Commodities" and "Cross-Currency Swaps" are included in "Qualifying derivatives" on the Statements of Comprehensive Income.

The significant unobservable inputs used in the fair value measurement of assets and liabilities classified as Level 3 for the three months ended March 31 are as follows:

	Quantitative Information about Level 3 Fair Value Measurements			
	2012			
	Fair Value, net Asset (Liability)	Valuation Technique	Unobservable Input(s)	Range (Weighted Average) (a)
PPL				
Energy commodities				
Retail natural gas contracts (b)	29	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	20% - 100% (69%)
Electric contracts (c)	(6)	Discounted cash flow	Basis price between delivery points	28% - 33% (28%)
Other contracts (d)	(4)	Discounted cash flow	Various	22% - 100% (65%)
Auction rate securities (e)	24	Discounted cash flow	Modeled from SIFMA Index	15% - 90% (66%)
Cross-currency swaps (f)	3	Discounted cash flow	Credit valuation adjustment	23% - 37% (32%)
PPL Energy Supply				
Energy commodities				
Retail natural gas contracts (b)	29	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	20% - 100% (69%)
Electric contracts (c)	(6)	Discounted cash flow	Basis price between delivery points	28% - 33% (28%)
Other contracts (d)	(4)	Discounted cash flow	Various	22% - 100% (65%)
Auction rate securities (e)	19	Discounted cash flow	Modeled from SIFMA Index	15% - 90% (65%)

(a) For energy commodities and auction rate securities, the range and weighted average represent the percentage of fair value derived from the unobservable inputs. For cross-currency swaps, the range and weighted average represent the percentage decrease in fair value due to the unobservable inputs used in the model to calculate the credit valuation adjustment.
(b) Retail natural gas contracts extend through 2017. $15 million of the fair value is scheduled to deliver within the next 12 months. As the price of natural gas increases/(decreases), the fair value of the contracts (decreases)/increases.
(c) Electric contracts extend through 2014. $(3) million of the fair value is scheduled to deliver within the next 12 months. As the price of electric increases/(decreases), the fair value of the contracts (decreases)/increases.
(d) Other includes FTR and capacity contracts. The models used to calculate the fair value of these contracts use historical settlement prices and extrapolation of observable forward curves. Increases/(decreases) in the historical settled prices or forward prices will (decrease)/increase the fair value.
(e) Auction rate securities have a weighted average contractual maturity of 24 years. The model used to calculate fair value incorporates significant assumptions, including the assumptions that the auctions will continue to fail and that the securities will be held to maturity. As the modeled forward rates of the SIFMA Index increase/(decrease), the fair value of the securities increases/(decreases).
(f) Cross-currency swaps extend through 2021. The credit valuation adjustment incorporates projected probabilities of default and estimated recovery rates. As the credit valuation adjustment increases/(decreases), the fair value of the swaps (decreases)/increases.

Net gains and losses on assets and liabilities classified as Level 3 and included in earnings for the three months ended March 31 are reported in the Statements of Income as follows:

	2012			
	Energy Commodities, net			
	Unregulated Retail Electric and Gas	Wholesale Energy Marketing	Net Energy Trading Margins	Energy Purchases
PPL and PPL Energy Supply				
Total gains (losses) included in earnings for the period	$ 16	$ 4	$ (1)	$ (1)
Change in unrealized gains (losses) relating to positions still held at the reporting date	46	(18)	(1)	(5)

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

(PPL and PPL Energy Supply)

Price Risk Management Assets/Liabilities - Energy Commodities

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

When unobservable inputs are significant to the fair value measurement, a contract is classified as Level 3. Contracts classified as Level 3 represent contracts for which delivery is at a location where pricing is unobservable or the delivery dates are beyond the dates for which independent quotes are available. To measure the fair value of these contracts, PPL uses internally developed models that project forward prices. Forward transactions, including forward transactions classified as Level 3, are analyzed by PPL's Risk Management department, which reports to the Chief Financial Officer (CFO). Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the forward transactions in the fair value hierarchy. Valuation techniques are evaluated periodically. Additionally, Level 2 and Level 3 fair value measurements include adjustments for credit risk based on PPL's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). PPL's credit department assesses all reasonably available market information to calculate the credit valuation adjustment.

In certain instances, energy commodity contracts are transferred between Level 2 and Level 3. The primary reasons for the transfers during 2012 and 2011 were changes in the availability of market information and changes in the significance of the unobservable portion of the contract. As the delivery period of a contract becomes closer, market information may become available. When this occurs, the model's unobservable inputs are replaced with observable market information.

(PPL, LKE and LG&E)

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

To manage interest rate risk, PPL, LKE and LG&E use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage foreign currency exchange risk, PPL uses foreign currency contracts such as forwards, options and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP and Euro), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3. The primary reason for the transfers out of Level 3 for 2012 was the change in the significance of the credit valuation adjustment. Cross-currency swaps classified as Level 3 are valued by PPL's Corporate Finance department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

(PPL and PPL Energy Supply)

NDT Funds

The market approach is used to measure the fair value of equity securities held in the NDT funds.

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

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

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

The debt securities held by the NDT funds at March 31, 2012 have a weighted-average coupon of 4.44% and a weighted-average maturity of 8.30 years.

Auction Rate Securities

Auction rate securities include Federal Family Education Loan Program guaranteed student loan revenue bonds, as well as various municipal bond issues. The exposure to realize losses on these securities is not significant.

The fair value of auction rate securities is estimated using an income approach with inputs for the underlying structure and credit quality of each security; the present value of future interest payments, estimated based on forward rates of the SIFMA Index, and principal payments discounted using interest rates for bonds with a credit rating and remaining term to maturity similar to the stated maturity of the auction rate securities; and the impact of auction failures or redemption at par. Auction rate securities are classified as Level 3 because the model used to calculate fair value incorporates significant assumptions. Auction rate securities are valued by PPL's Treasury department, which reports to the CFO. Accounting personnel, who also report to the CFO, interpret the analysis quarterly to appropriately classify the contracts in the fair value hierarchy. Valuation techniques are evaluated periodically.

Financial Instruments Not Recorded at Fair Value *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

The carrying amounts of contract adjustment payments related to the Purchase Contract component of the Equity Units and long-term debt on the Balance Sheets and their estimated fair values are set forth below. The fair values of these instruments were estimated using an income approach by discounting future cash flows at estimated current cost of funding rates and are classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	March 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
PPL				
Contract adjustment payments (a)	$ 175	$ 176	$ 198	$ 198
Long-term debt	18,076	19,837	17,993	19,392
PPL Energy Supply				
Long-term debt	3,024	3,420	3,024	3,397
PPL Electric				
Long-term debt	1,718	2,014	1,718	2,012
LKE				
Long-term debt	4,074	4,338	4,073	4,306
LG&E				
Long-term debt	1,112	1,168	1,112	1,164
KU				
Long-term debt	1,842	2,017	1,842	2,000

(a) Reflected in "Other current liabilities" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

The carrying value of short-term debt, when outstanding, represents or approximates fair value due to the variable interest rates associated with the financial instruments and is classified as Level 2. The carrying value of held-to-maturity, short-term investments at December 31, 2011 approximated fair value due to the liquid nature and short-term duration of these instruments.

Credit Concentration Associated with Financial Instruments

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

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

(PPL)

At March 31, 2012, PPL had credit exposure of $3.6 billion from energy trading partners, excluding the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, PPL's credit exposure was reduced to $954 million. The top ten counterparties accounted for $460 million, or 48%, of the net exposure and all had investment grade credit ratings from S&P or Moody's.

(PPL Energy Supply)

At March 31, 2012, PPL Energy Supply had credit exposure of $3.6 billion from energy trading partners, excluding exposure from related parties and the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, this credit exposure was reduced to $953 million. The top ten counterparties accounted for $460 million, or 48%, of the net exposure and all had investment grade credit ratings from S&P or Moody's.

(PPL Electric)

At March 31, 2012, PPL Electric had no credit exposure under energy supply contracts (including its supply contracts with PPL EnergyPlus).

(LKE, LG&E and KU)

At March 31, 2012, LKE's, LG&E's and KU's credit exposure was not significant.

14. Derivative Instruments and Hedging Activities

Risk Management Objectives

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL has a risk management policy approved by the Board of Directors to manage market risk and counterparty credit risk. The RMC, comprised of senior management and chaired by the Chief Risk Officer, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, VaR analyses, portfolio stress tests, gross margin at risk analyses, sensitivity analyses, and daily portfolio reporting, including open positions, determinations of fair value, and other risk management metrics.

Market Risk

Market risk is the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument. Forward contracts, futures contracts, options, swaps and structured deals, such as tolling agreements, are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, volumes of full-requirement sales contracts, basis exposure, interest rates and/or foreign currency exchange rates. All derivatives are recognized on the Balance Sheets at their fair value, unless they qualify for NPNS.

PPL is exposed to market risk from foreign currency exchange risk primarily associated with its investments in U.K. affiliates, as well as additional market risk from certain subsidiaries, as described below.

PPL Energy Supply is exposed to market risk from:

- commodity price, basis and volumetric risks for energy and energy-related products associated with the sale of electricity from its generating assets and other electricity and gas marketing activities (including full-requirement sales contracts) and the purchase of fuel and fuel-related commodities for generating assets, as well as for proprietary trading activities;

- interest rate and price risk associated with debt used to finance operations, as well as debt and equity securities in NDT funds and defined benefit plans; and
- foreign currency exchange rate risk associated with firm commitments in currencies other than the applicable functional currency.

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

By definition, the regulatory environments for PPL's other regulated entities, LKE (through its subsidiaries LG&E and KU) and WPD, significantly mitigate market risk. LG&E's and KU's rates are set to permit the recovery of prudently incurred costs, including certain mechanisms for fuel, gas supply and environmental expenses. These mechanisms generally provide for timely recovery of market price and volumetric fluctuations associated with these expenses. WPD does not have supply risks in the distribution business.

LG&E also utilizes over-the-counter interest rate swaps to limit exposure to market fluctuations on interest expense. WPD utilizes over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from foreign currency exchange rates.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance, including defaults on payments and energy commodity deliveries.

PPL is exposed to credit risk from interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

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

LG&E is exposed to credit risk from interest rate derivatives with financial institutions.

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

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

Master Netting Arrangements

Net derivative positions are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL's and PPL Energy Supply's obligation to return counterparty cash collateral under master netting arrangements was $213 million and $147 million at March 31, 2012 and December 31, 2011.

PPL Electric, LKE and LG&E had no obligation to return cash collateral under master netting arrangements at March 31, 2012 and December 31, 2011.

PPL Energy Supply and PPL Electric had not posted any cash collateral under master netting arrangements at March 31, 2012 and December 31, 2011.

PPL, LKE and LG&E had posted cash collateral under master netting arrangements of $27 million at March 31, 2012 and $29 million at December 31, 2011.

Commodity Price Risk (Non-trading)

(PPL and PPL Energy Supply)

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

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

Cash Flow Hedges

Many derivative contracts have qualified for hedge accounting so that the effective portion of a derivative's gain or loss is deferred in AOCI and reclassified into earnings when the forecasted transaction occurs. The cash flow hedges that existed at March 31, 2012 range in maturity through 2016. At March 31, 2012, the accumulated net unrecognized after-tax gains (losses) that are expected to be reclassified into earnings during the next 12 months were $341 million for PPL and PPL Energy Supply. Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedge transaction is probable of not occurring. For the three months ended March 31, 2012 and 2011, such reclassifications were insignificant.

For the three months ended March 31, 2012 and 2011, after-tax hedge ineffectiveness associated with energy derivatives was insignificant.

Certain cash flow hedge positions were dedesignated during the three months ended March 31, 2012. The fair value of the hedges at December 31, 2011 remained in AOCI because the original forecasted transaction is still expected to occur. A pre-tax gain of $169 million, which represented the change in fair value of these positions during the three months ended March 31, 2012, was recorded as economic activity in "Wholesale energy marketing - Unrealized" on the Statement of Income.

Economic Activity

Certain derivative contracts economically hedge the price and volumetric risk associated with electricity, gas, oil and other commodities but do not receive hedge accounting treatment. These derivatives hedge a portion of the economic value of PPL Energy Supply's competitive generation assets and unregulated full-requirement and retail contracts, which are subject to changes in fair value due to market price volatility and volume expectations. Additionally, economic activity includes the ineffective portion of qualifying cash flow hedges (see "Cash Flow Hedges" above). The derivative contracts in this category that existed at March 31, 2012 range in maturity through 2019.

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

Unrealized activity associated with monetizing certain full-requirement sales contracts was also included in economic activity during the three months ended March 31, 2012 and 2011.

The net fair value of economic positions at March 31, 2012 and December 31, 2011 was a net asset (liability) of $816 million and $(63) million for PPL Energy Supply. The unrealized gains (losses) for economic activity for the three months ended March 31 were as follows.

	2012	2011
PPL Energy Supply		
Operating Revenues		
Unregulated retail electric and gas	$ 10	$ 4
Wholesale energy marketing	852	57
Operating Expenses		
Fuel	2	23
Energy purchases	(591)	18

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

(PPL and PPL Energy Supply)

Commodity Price Risk (Trading)

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

Commodity Volumetric Activity

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

Sales of Baseload Generation

PPL Energy Supply has a formal hedging program for its competitive baseload generation fleet, which includes 7,252 MW of nuclear, coal and hydroelectric generating capacity. The objective of this program is to provide a reasonable level of near-term cash flow and earnings certainty while preserving upside potential of power price increases over the medium term. PPL Energy Supply sells its expected generation output on a forward basis using both derivative and non-derivative instruments. Both are included in the following tables.

The following table presents the expected sales, in GWh, from competitive baseload generation and tolling arrangements that are included in the baseload portfolio based on current forecasted assumptions for 2012-2014.

2012 (a)	2013	2014
39,733	53,136	53,502

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

The following table presents the percentage of expected baseload generation sales shown above that has been sold forward under fixed price contracts and the related percentage of fuel that has been purchased or committed at March 31, 2012.

Year	Derivative Sales (a)	Total Power Sales (b)	Fuel Purchases (c)	
			Coal	Nuclear
2012 (d)	91%	95%	100%	100%
2013	75%	82%	97%	100%
2014 (e)	8%	13%	70%	100%

(a) Excludes non-derivative contracts and contracts that qualify for NPNS. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.
(b) Amount represents derivative (including contracts that qualify for NPNS) and non-derivative contracts. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option. Percentages are based on fixed-price contracts only.
(c) Coal and nuclear contracts receive accrual accounting treatment, as they are not derivative contracts. Percentages are based on both fixed- and variable-priced contracts.
(d) Represents the balance of the current year.
(e) Volumes for derivative sales contracts that deliver in future periods total 1,635 GWh and 20.2 Bcf.

In addition to the fuel purchases above, PPL Energy Supply attempts to economically hedge the fuel price risk that is within its fuel-related and coal transportation contracts, which are tied to changes in crude oil or diesel prices. PPL Energy Supply has also entered into contracts to financially hedge the physical sale of oil. The following table presents the net volumes (in thousands of barrels) of derivative (sales)/purchase contracts used in support of these strategies at March 31, 2012.

	2012 (a)	2013	2014
Oil Swaps	162	285	240

(a) Represents the balance of the current year.

Optimization of Intermediate and Peaking Generation

In addition to its competitive baseload generation activities, PPL Energy Supply attempts to optimize the overall value of its competitive intermediate and peaking fleet, which includes 3,256 MW of gas and oil-fired generation. The following table presents the net volumes of derivative (sales)/purchase contracts used in support of this strategy at March 31, 2012.

	Units	2012 (a)	2013	2014 (b)
Net Power Sales	GWh	(2,076)	(408)	
Net Fuel Purchases (c)	Bcf	16.9	2.6	(0.3)

(a) Represents the balance of the current year.
(b) Volumes for derivative contracts used in support of these strategies that deliver in future periods are insignificant.
(c) Included in these volumes are non-options and exercised option contracts that converted to non-option derivative contracts. Volumes associated with option contracts are insignificant.

Marketing Activities

PPL Energy Supply's marketing portfolio is comprised of full-requirement sales contracts and their related supply contracts, retail natural gas and electricity sales contracts and other marketing activities. The obligations under the full-requirement sales contracts include supplying a bundled product of energy, capacity, RECs, and other ancillary products. The full-requirement sales contracts PPL Energy Supply is awarded do not provide for specific levels of load, and actual load could vary significantly from forecasted amounts. PPL Energy Supply uses a variety of strategies to hedge its full-requirement sales contracts, including purchasing energy at a liquid trading hub or directly at the load delivery zone, purchasing capacity and RECs in the market and supplying the energy, capacity and RECs with its generation. The following table presents the volume of (sales)/purchase contracts, excluding FTRs, RECs, basis and capacity contracts, used in support of these activities at March 31, 2012.

	Units	2012 (a)	2013	2014
Energy sales contracts (b)	GWh	(10,945)	(6,612)	(3,261)
Related energy supply contracts (b)				
Energy purchases	GWh	7,718	2,873	955
Volumetric hedges (c)	GWh	73	80	65
Generation supply	GWh	2,630	3,049	2,234
Retail gas sales contracts	Bcf	(11.4)	(6.0)	(1.8)
Retail gas purchase contracts	Bcf	11.2	5.8	1.7

(a) Represents the balance of the current year.
(b) Includes NPNS and contracts that are not derivatives, which receive accrual accounting.

(c) PPL Energy Supply uses power and gas options, swaps and futures to hedge the volumetric risk associated with full-requirement sales contracts since the demand for power varies hourly. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.

Proprietary Trading Activity

At March 31, 2012, PPL Energy Supply's proprietary trading positions, excluding FTR, basis and capacity contract activity that is included in the tables below, were insignificant.

Other Energy-Related Positions

FTRs and Other Basis Positions

PPL Energy Supply buys and sells FTRs and other basis positions to mitigate the basis risk between delivery points related to the sales of its generation, the supply of its full-requirement sales contracts and retail contracts, as well as for proprietary trading purposes. The following table represents the net volumes of derivative FTR and basis (sales)/purchase contracts at March 31, 2012.

	Units	2012 (a)	2013	2014
FTRs	GWh	7,207		
Power Basis Positions (b)	GWh	(13,316)	(8,244)	(2,628)
Gas Basis Positions (b)	Bcf	7.1	(5.2)	(4.0)

(a) Represents the balance of the current year.
(b) Net volumes that deliver in future periods are (677) GWh and (4.0) Bcf.

Capacity Positions

PPL Energy Supply buys and sells capacity related to the sales of its generation and the supply of its full-requirement sales contracts. These contracts qualify for NPNS and receive accrual accounting. PPL Energy Supply also sells and purchases capacity for proprietary trading purposes. These contracts are marked to fair value through earnings. The following table presents the net volumes of derivative capacity (sales)/purchase contracts at March 31, 2012.

	Units	2012 (a)	2013	2014 (b)
Capacity	MW-months	(7,102)	(3,366)	(2,578)

(a) Represents the balance of the current year.
(b) Net volumes that deliver in future periods are 989 MW-months.

Interest Rate Risk

(PPL, PPL Energy Supply, LKE and LG&E)

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

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

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. For PPL, outstanding interest rate swap contracts ranged in maturity through 2022 and had a notional value of $175 million at March 31, 2012. PPL Energy Supply had no such interest rate swap contracts outstanding at March 31, 2012.

PPL WEM holds a notional position in cross-currency interest rate swaps totaling $960 million that mature through 2021 to hedge the interest payments and principal of its U.S. dollar-denominated senior notes. Additionally, PPL WW holds a notional position in cross-currency interest rate swaps totaling $302 million that mature through 2028 to hedge the interest payments and principal of its U.S. dollar-denominated senior notes.

For the three months ended March 31, 2012 and 2011, hedge ineffectiveness associated with these interest rate derivatives was insignificant for PPL and PPL Energy Supply.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified to earnings once it is determined that the hedge transaction is probable of not occurring. PPL and PPL Energy Supply had no such reclassifications for the three months ended March 31, 2012 and March 31, 2011.

At March 31, 2012, the accumulated net unrealized after-tax gains (losses) on qualifying derivatives that are expected to be reclassified into earnings during the next 12 months were $(12) million for PPL. Amounts are reclassified as the hedged interest payments are made.

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

PPL and PPL Energy Supply are exposed to changes in the fair value of their debt portfolios. To manage this risk, financial contracts may be entered into to hedge fluctuations in the fair value of existing debt issuances due to changes in benchmark interest rates. At March 31, 2012, PPL held contracts that range in maturity through 2047 and had a notional value of $99 million. PPL Energy Supply did not hold any such contracts at March 31, 2012. PPL and PPL Energy Supply did not recognize gains or losses resulting from the ineffective portion of fair value hedges or from a portion of the hedging instrument being excluded from the assessment of hedge effectiveness or from hedges of debt issuances that no longer qualified as fair value hedges for the three months ended March 31, 2012 and 2011.

Economic Activity *(PPL, LKE and LG&E)*

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including a terminated swap contract, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income when the hedged transaction occurs. At March 31, 2012, LG&E held contracts with a notional amount of $179 million that range in maturity through 2033. The fair values of these contracts were recorded as liabilities of $53 million and $60 million at March 31, 2012 and December 31, 2011 with equal offsetting amounts recorded as regulatory assets.

Foreign Currency Risk

(PPL and PPL Energy Supply)

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. In addition, PPL and PPL Energy Supply may be exposed to foreign currency risk associated with firm commitments in currencies other than the applicable functional currency.

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

(PPL)

Net Investment Hedges

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. The contracts outstanding at March 31, 2012 had a notional amount of £55 million (approximately $89 million based on contracted rates). The settlement dates of these contracts range from June 2012 through September 2012. The fair value of these contracts at March 31, 2012 and December 31, 2011 was insignificant and $7 million. For the three months ended March 31, 2012 and 2011, PPL recognized insignificant amounts of net investment hedge gains and losses in the foreign currency translation adjustment component of AOCI. At March 31, 2012, PPL included $17 million of accumulated net investment hedge gains, after tax, in the foreign currency translation adjustment component of AOCI, compared to $19 million of gains, after-tax, recorded by PPL at December 31, 2011.

Cash Flow Hedges

PPL held no foreign currency derivatives that qualified as cash flow hedges during the three months ended March 31, 2012 and 2011.

Fair Value Hedges

PPL held no foreign currency derivatives that qualified as fair value hedges during the three months ended March 31, 2012 and 2011.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge anticipated earnings denominated in GBP. At March 31, 2012, the total exposure hedged by PPL was £761 million and the net fair value of these positions was an asset (liability) of $(9) million. These contracts had termination dates ranging from April 2012 through September 2013. Realized and unrealized gains and (losses) on these contracts are included in "Other Income (Expense) - net" on the Statements of Income and were $(18) million for the three months ended March 31, 2012. At December 31, 2011, the total exposure hedged by PPL was £288 million and the net fair value of these positions was a net asset of $11 million. Realized and unrealized gains and (losses) were insignificant for the three months ended March 31, 2011.

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

Accounting and Reporting

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless they qualify for NPNS. NPNS contracts for PPL and PPL Energy Supply include full-requirement sales contracts, other physical sales contracts and certain retail energy and physical capacity contracts, and for PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the derivatives' fair value are recognized currently in earnings unless specific hedge accounting criteria are met, except for the change in fair value of LG&E's interest rate swaps which are recognized as regulatory assets. See Note 6 for amounts recorded in regulatory assets at March 31, 2012 and December 31, 2011.

See Notes 1 and 19 in each Registrant's 2011 Form 10-K for additional information on accounting policies related to derivative instruments.

(PPL)

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

	March 31, 2012				December 31, 2011			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management Assets/Liabilities (b):								
Interest rate swaps	$ 3	$ 1		$ 4	$ 3	$ 3		$ 5
Cross-currency swaps		2				2		
Foreign currency contracts	1		$ 4	13	7		$ 11	
Commodity contracts	120		3,102	2,129	872	3	1,655	1,557
Total current	124	3	3,106	2,146	882	8	1,666	1,562
Noncurrent:								
Price Risk Management Assets/Liabilities (b):								
Interest rate swaps				49				55
Cross-currency swaps	37				24			
Commodity contracts	48	1	1,101	1,024	42	2	854	783
Total noncurrent	85	1	1,101	1,073	66	2	854	838
Total derivatives	$ 209	$ 4	$ 4,207	$ 3,219	$ 948	$ 10	$ 2,520	$ 2,400

(a) $816 million and $237 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at March 31, 2012 and December 31, 2011.
(b) Represents the location on the Balance Sheet.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $471 million and $527 million at March 31, 2012 and December 31, 2011. The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $663 million and $695 million at March 31, 2011 and December 31, 2010.

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

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative 2012	Gain (Loss) Recognized in Income on Derivative 2011	Gain (Loss) Recognized in Income on Related Item 2012	Gain (Loss) Recognized in Income on Related Item 2011
Interest rate swaps	Fixed rate debt	Interest expense	$	$ 1	$ 1	$ 10

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) 2012	Derivative Gain (Loss) Recognized in OCI (Effective Portion) 2011	Location of Gain (Loss) Recognized in Income	2012 Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	2012 Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	2011 Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	2011 Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	$ 3	$ 10	Interest expense	$ (4)		$ (3)	$ (1)
Cross-currency swaps	12	(25)	Interest expense	(1)		3	
			Other income (expense) - net	(19)		(13)	
Commodity contracts	113	84	Wholesale energy marketing	272	$ 4	203	(9)
			Depreciation	1			
			Energy purchases	(40)	(4)	(70)	1
Total	$ 128	$ 69		$ 209	$	$ 120	$ (9)
Net Investment Hedges:							
Foreign currency contracts	$ (3)	$ (1)					

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	2012	2011
Foreign currency contracts	Other income (expense) - net	$ (18)	$ (9)
Interest rate swaps	Interest expense	(2)	(2)
Commodity contracts	Unregulated retail electric and gas	22	1
	Wholesale energy marketing	1,343	45
	Net energy trading margins (a)	9	7
	Fuel	6	23
	Energy purchases	(1,070)	(55)
	Total	$ 290	$ 10

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2012	2011
Interest rate swaps	Regulatory assets	$ 7	$ 2

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

(PPL Energy Supply)

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

	March 31, 2012				December 31, 2011			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management Assets/Liabilities (b):								
Commodity contracts	$ 120		$ 3,102	$ 2,129	$ 872	$ 3	$ 1,655	$ 1,557
Total current	120		3,102	2,129	872	3	1,655	1,557
Noncurrent:								
Price Risk Management Assets/Liabilities (b):								
Commodity contracts	48	$ 1	1,101	1,024	42	2	854	783
Total noncurrent	48	1	1,101	1,024	42	2	854	783
Total derivatives	$ 168	$ 1	$ 4,203	$ 3,153	$ 914	$ 5	$ 2,509	$ 2,340

(a) $816 million and $237 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at March 31, 2012 and December 31, 2011.

(b) Represents the location on the balance sheet.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $522 million and $605 million at March 31, 2012 and December 31, 2011. The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $662 million and $733 million at March 31, 2011 and December 31, 2010. At March 31, 2011, AOCI reflects the effect of PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding.

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

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) 2012	Derivative Gain (Loss) Recognized in OCI (Effective Portion) 2011	Location of Gains (Losses) Recognized in Income	2012 Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	2012 Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	2011 Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	2011 Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Commodity contracts	$ 113	$ 84	Wholesale energy marketing	$ 272	$ 4	$ 203	$ (9)
			Energy purchases	(40)	(4)	(70)	1
Total	$ 113	$ 84		$ 232	$	$ 133	$ (8)

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	2012	2011
Commodity contracts	Unregulated retail electric and gas	$ 22	$ 1
	Wholesale energy marketing	1,343	45
	Net energy trading margins (a)	9	7
	Fuel	6	23
	Energy purchases	(1,070)	(55)
	Total	$ 310	$ 21

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

(LKE and LG&E)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	March 31, 2012				December 31, 2011			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Other Current Assets/Liabilities (a):								
Interest rate swaps				$ 4				$ 5
Total current				4				5
Noncurrent:								
Price Risk Management Assets/Liabilities (a):								
Interest rate swaps				49				55
Total noncurrent				49				55
Total derivatives				$ 53				$ 60

(a) Represents the location on the Balance Sheet.

The following tables present the pre-tax effect of derivative instruments recognized in income or regulatory assets for the three months ended March 31, 2012 and 2011.

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	2012	2011
Interest rate swaps	Interest expense	$ (2)	$ (2)
	Total	$ (2)	$ (2)

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2012	2011
Interest rate swaps	Regulatory assets	$ 7	$ 2

Credit Risk-Related Contingent Features *(PPL, PPL Energy Supply, LKE and LG&E)*

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

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

At March 31, 2012, the effect of a decrease in credit ratings below investment grade on derivative contracts that contain credit contingent features and were in a net liability position is summarized as follows.

	PPL	PPL Energy Supply	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit contingent provisions	$ 211	$ 168	$ 36	$ 36
Aggregate fair value of collateral posted on these derivative instruments	53	26	27	27
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	175	158	9	9

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

15. Goodwill

(PPL)

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

	Kentucky Regulated	U.K. Regulated	Supply	Total
PPL				
Balance at December 31, 2011 (a)	$ 662	$ 3,032	$ 420	$ 4,114
Effect of foreign currency exchange rates		47		47
Balance at March 31, 2012 (a)	$ 662	$ 3,079	$ 420	$ 4,161

(a) There were no accumulated impairment losses related to goodwill.

16. Asset Retirement Obligations

(PPL, PPL Energy Supply, LKE, LG&E and KU)

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

	PPL	PPL Energy Supply	LKE	LG&E	KU
ARO at December 31, 2011	$ 497	$ 359	$ 118	$ 57	$ 61
Accretion expense	9	6	2	1	1
Changes in estimated cash flow or settlement date	2	2			
Obligations settled	(4)	(4)			
ARO at March 31, 2012	$ 504	$ 363	$ 120	$ 58	$ 62

Substantially all of the ARO balances are classified as noncurrent at March 31, 2012 and December 31, 2011.

(PPL, LKE, LG&E and KU)

Accretion and depreciation expense recorded by LG&E and KU is offset with a regulatory credit on the income statement, such that there is no earnings impact.

(PPL and PPL Energy Supply)

The most significant ARO recorded by PPL and PPL Energy Supply relates to the decommissioning of the Susquehanna nuclear plant. The accrued nuclear decommissioning obligation was $298 million and $292 million at March 31, 2012 and December 31, 2011.

Assets in the NDT funds are legally restricted for purposes of settling PPL's and PPL Energy Supply's ARO related to the decommissioning of the Susquehanna plant. The aggregate fair value of these assets was $693 million and $640 million at March 31, 2012 and December 31, 2011, and is included in "Nuclear plant decommissioning trust funds" on the Balance Sheets. See Notes 13 and 17 for additional information on these assets.

17. Available-for-Sale Securities

(PPL, PPL Energy Supply, LKE and LG&E)

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

(PPL and PPL Energy Supply)

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

	March 31, 2012				December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
PPL								
NDT funds:								
Cash and cash equivalents	$ 8			$ 8	$ 12			$ 12
Equity securities:								
U.S. large-cap	177	$ 152		329	173	$ 119		292
U.S. mid/small-cap	69	64		133	67	50		117
Debt securities:								
U.S. Treasury	79	8		87	76	10		86
U.S. government sponsored agency	9	1		10	9	1		10
Municipality	81	4	$ 1	84	80	4	$ 1	83
Investment-grade corporate	35	3		38	35	3		38
Other	2			2	2			2
Receivables/payables, net	2			2				
Total NDT funds	462	232	1	693	454	187	1	640
Auction rate securities	25		1	24	25		1	24
Total	$ 487	$ 232	$ 2	$ 717	$ 479	$ 187	$ 2	$ 664
PPL Energy Supply								
NDT funds:								
Cash and cash equivalents	$ 8			$ 8	$ 12			$ 12
Equity securities:								
U.S. large-cap	177	$ 152		329	173	$ 119		292
U.S. mid/small-cap	69	64		133	67	50		117
Debt securities:								
U.S. Treasury	79	8		87	76	10		86
U.S. government sponsored agency	9	1		10	9	1		10
Municipality	81	4	$ 1	84	80	4	$ 1	83
Investment-grade corporate	35	3		38	35	3		38
Other	2			2	2			2
Receivables/payables, net	2			2				
Total NDT funds	462	232	1	693	454	187	1	640
Auction rate securities	20		1	19	20		1	19
Total	$ 482	$ 232	$ 2	$ 712	$ 474	$ 187	$ 2	$ 659

There were no securities with credit losses at March 31, 2012 and December 31, 2011.

The following table shows the scheduled maturity dates of debt securities held at March 31, 2012.

	Maturity Less Than 1 Year	Maturity 1-5 Years	Maturity 5-10 Years	Maturity in Excess of 10 Years	Total
PPL					
Amortized cost	$ 9	$ 77	$ 64	$ 81	$ 231
Fair value	9	80	70	86	245
PPL Energy Supply					
Amortized cost	$ 9	$ 77	$ 64	$ 76	$ 226
Fair value	9	80	70	81	240

The following table shows proceeds from and realized gains and losses on sales of available-for-sale securities for the three months ended March 31.

	2012	2011
PPL		
Proceeds from sales of NDT securities (a)	$ 34	$ 75
Other proceeds from sales		163
Gross realized gains (b)	6	17
Gross realized losses (b)	1	5
PPL Energy Supply		
Proceeds from sales of NDT securities (a)	$ 34	$ 75
Gross realized gains (b)	6	17
Gross realized losses (b)	1	5

(a) These proceeds are used to pay income taxes and fees related to managing the trust. Remaining proceeds are reinvested in the trust.

(b) Excludes the impact of other-than-temporary impairment charges recognized in the Statements of Income.

(PPL, LKE and LG&E)

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

18. New Accounting Guidance Pending Adoption

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Improving Disclosures about Offsetting Balance Sheet Items

Effective January 1, 2013, the Registrants will retrospectively adopt accounting guidance issued to enhance disclosures about financial instruments and derivative instruments that either (1) offset on the balance sheet or (2) are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the balance sheet.

Upon adoption, the enhanced disclosure requirements are not expected to have a significant impact on the Registrants.

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

The following should be read in conjunction with PPL's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL's 2011 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of PPL and its business strategy, a summary of Net Income Attributable to PPL Corporation and a discussion of certain events related to PPL's results of operations and financial condition.

- "Results of Operations" provides a summary of PPL's earnings, a review of results by reportable segment and a description of factors by segment expected to impact future earnings. This section ends with explanations of significant changes in principal items on PPL's Statements of Income, comparing the three months ended March 31, 2012 with the same period in 2011.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL's liquidity position and credit profile.

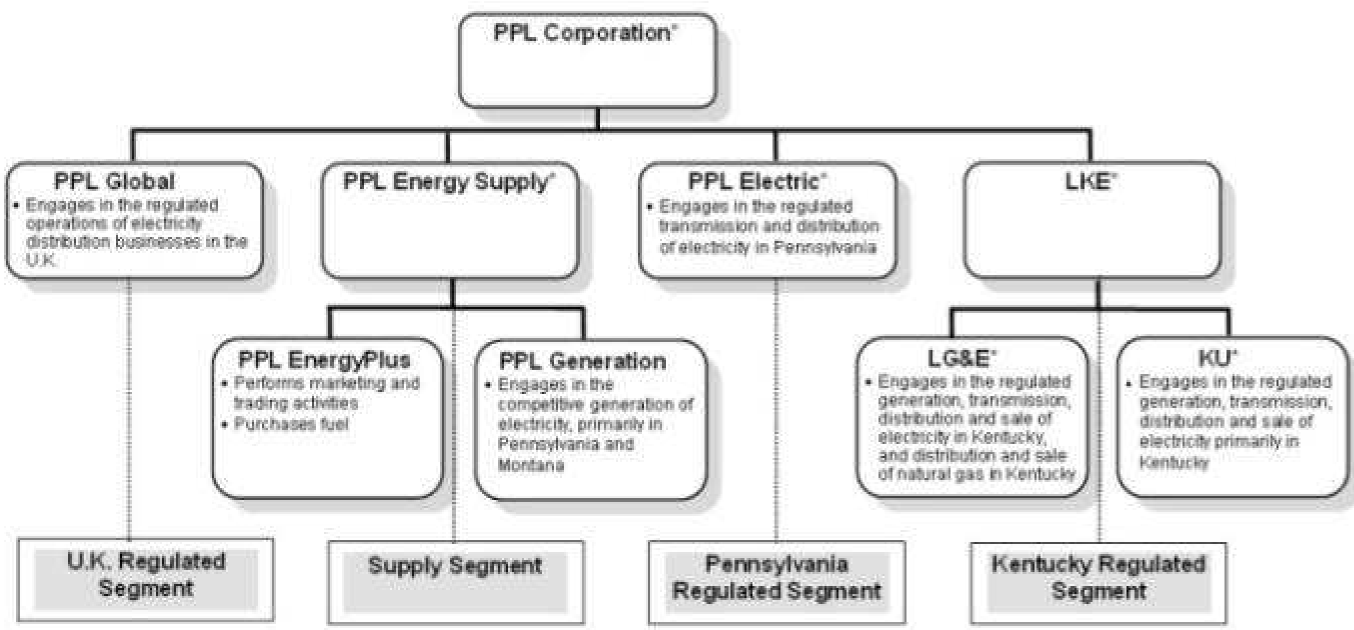
- "Financial Condition - Risk Management" provides an explanation of PPL's risk management programs relating to market and credit risk.

Overview

Introduction

PPL is an energy and utility holding company with headquarters in Allentown, Pennsylvania. Through subsidiaries, PPL generates electricity from power plants in the northeastern, northwestern and southeastern U.S., markets wholesale and retail energy primarily in the northeastern and northwestern portions of the U.S., delivers electricity to customers in Pennsylvania, Kentucky, Virginia, Tennessee and the U.K. and delivers natural gas to customers in Kentucky.

PPL's principal subsidiaries are shown below (* denotes an SEC registrant):



Business Strategy

PPL's overall strategy is to achieve stable, long-term growth in its regulated electricity delivery businesses through efficient operations and strong customer and regulatory relations, and disciplined optimization of energy supply margins in its energy supply business while mitigating volatility in both cash flows and earnings. In pursuing this strategy, PPL acquired LKE in November 2010 and WPD Midlands in April 2011. These acquisitions have reduced PPL's overall business risk profile and reapportioned the mix of PPL's regulated and competitive businesses by increasing the regulated portion of its business and enhancing rate-regulated growth opportunities as the regulated businesses make investments to improve infrastructure and customer reliability.

The increase in regulated assets is expected to provide earnings stability through regulated returns and the ability to recover costs of capital investments, in contrast to the competitive energy supply business where earnings and cash flows are subject to commodity market volatility. The pro forma impacts of the acquisition of WPD Midlands on income from continuing operations (after income taxes) for the three months ended March 31 are as follows.

	2011					
	Pro forma			Actual		
Regulated	$	310	59%	$	201	48%
Competitive		216	41%		216	52%
	$	526		$	417	

Note: Pro forma and actual amounts exclude non-recurring items identified in Note 8 to the Financial Statements.

Results for periods prior to the acquisition of WPD Midlands are not comparable with, or indicative of, results for periods subsequent to the acquisition.

With the purchase of WPD Midlands and the related growth of the portion of PPL's overall earnings translated from British pounds sterling, the related foreign currency risk is more substantial. The U.K. subsidiaries also have currency exposure to the U.S. dollar associated with their U.S. dollar-denominated debt. To manage these risks, PPL generally uses contracts such as forwards, options and cross currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts.

PPL's strategy for its competitive energy supply business is to optimize the value from its unregulated generation and marketing portfolio. PPL endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk.

To manage financing costs and access to credit markets, a key objective of PPL's business strategy is to maintain a strong credit profile. PPL continually focuses on maintaining an appropriate capital structure and liquidity position. In addition, PPL has adopted financial and operational risk management programs that, among other things, are designed to monitor and manage its exposure to earnings and cash flow volatility related to changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of its generating units.

Financial and Operational Developments

Net Income Attributable to PPL Corporation

Net Income Attributable to PPL Corporation for the three months ended March 31, 2012, was $541 million compared to $401 million for the same period in 2011, an increase of 35%. Net Income Attributable to PPL Corporation by segment was:

	Three Months Ended March 31,			
	2012		2011	
Kentucky Regulated	$	42	$	75
U.K. Regulated (a)		165		55
Pennsylvania Regulated		33		52
Supply		301		219
Net Income Attributable to PPL Corporation	$	541	$	401
EPS - basic	$	0.93	$	0.82
EPS - diluted	$	0.93	$	0.82

(a) As a result of the WPD Midlands acquisition on April 1, 2011, the U.K. Regulated segment includes WPD Midlands' results for the three months ended March 31, 2012. PPL consolidates WPD, including WPD Midlands, on a one-month lag. Material intervening events are recognized in the current period financial statements; events that are significant but not material are disclosed.

The changes in Net Income Attributable to PPL Corporation from period to period were, in part, attributable to certain items that management considers special. See "Results of Operations" for further discussion of the results of PPL's business segments, details of special items and analysis of the consolidated results of operations.

Ironwood Acquisition

In April 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the acquisition from a subsidiary of The AES Corporation of all of the equity interests of AES Ironwood, L.L.C. (subsequently renamed PPL Ironwood, LLC) and AES Prescott, L.L.C. (subsequently renamed PPL Prescott, LLC), which own and operate, respectively, the Ironwood Facility. The Ironwood Facility began operation in 2001 and, since 2008, PPL EnergyPlus has supplied natural gas for the operation of the Ironwood Facility and received the facility's full electricity output and capacity value pursuant to a tolling agreement that expires in 2021. The acquisition provides PPL Energy Supply, through its subsidiaries, operational control of additional combined-cycle gas generation in PJM. See Note 8 to the Financial Statements for additional information.

Equity Forward Contract

In April 2012 PPL made a registered underwritten public offering of 9.9 million shares of its common stock. In conjunction with that offering, the underwriters exercised an option to purchase an additional 590,880 shares of PPL common stock solely to cover over-allotments. In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the 9.9 million shares of PPL's common stock. Settlement of these initial forward sale agreements will occur no later than April 2013. As a result of the underwriters' exercise of the overallotment option, PPL entered into additional forward sale agreements covering the additional 590,880 shares of common stock. Settlement of the subsequent forward sale agreements will occur in July 2013.

PPL will not receive any proceeds or issue any shares of common stock until settlement of the forward sale agreements. PPL intends to use any net proceeds that it receives upon settlement to repay short-term debt obligations and for other general corporate purposes.

The forward sale agreements will be classified as equity transactions. As a result, no amounts will be recorded in the consolidated financial statements until the settlement of the forward sale agreements. Prior to those settlements, the only impact to the financial statements will be the inclusion of incremental shares within the calculation of diluted EPS using the treasury stock method. See "Financial Condition - Liquidity and Capital Resources - Long Term Debt and Equity Securities" for additional information.

Redemption of PPL Electric Preference Stock

In April 2012, PPL Electric gave notice that it had elected to redeem all 2.5 million shares of its 6.25% Series Preference Stock, par value $100 per share, on June 18, 2012. The price to be paid for the redemption is the par value, without premium ($250 million in the aggregate). The Preference Stock is reflected on PPL's Balance Sheets in "Noncontrolling Interests."

Bankruptcy of SMGT

In October 2011, SMGT, a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus expiring in June 2019 (SMGT Contract), filed for protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Montana. At the time of the bankruptcy filing, SMGT was PPL EnergyPlus' largest unsecured credit exposure.

The SMGT Contract provided for fixed volume purchases on a monthly basis at established prices. Pursuant to a court order and subsequent stipulations entered into between the SMGT bankruptcy trustee and PPL EnergyPlus, since the date of its Chapter 11 filing through January 2012, SMGT continued to purchase electricity from PPL EnergyPlus at the price specified in the SMGT Contract, and made timely payments for such purchases, but at lower volumes than as prescribed in the SMGT Contract. In January 2012, the trustee notified PPL EnergyPlus that SMGT would not purchase electricity under the SMGT Contract for the month of February. In March 2012, the U.S. Bankruptcy Court for the District of Montana issued an order approving the request of the SMGT bankruptcy trustee and PPL EnergyPlus to terminate the SMGT Contract. As a result, the SMGT Contract was terminated effective April 1, 2012, allowing PPL EnergyPlus to resell the electricity previously contracted to SMGT under the SMGT Contract to other customers.

PPL EnergyPlus' receivable under the SMGT Contract totaled approximately $22 million at March 31, 2012, which has been fully reserved. No assurance can be given as to the collectability of the receivable.

At this time, PPL Energy Supply cannot predict the prices and other terms on which it will be able to market to third parties the power that SMGT will not purchase from PPL EnergyPlus due to the termination of the SMGT Contract.

Tax Litigation

In 1997, the U.K. imposed a Windfall Profits Tax (WPT) on privatized utilities, including WPD. PPL filed its tax returns for years subsequent to its 1997 and 1998 claim for refund on the basis that the U.K. WPT was creditable. In September 2010, the U.S. Tax Court (Tax Court) ruled in PPL's favor in a dispute with the IRS, concluding that the U.K. WPT is a creditable tax for U.S. tax purposes. As a result, and with finalization of other issues, PPL recorded a $42 million tax benefit in 2010. In January 2011, the IRS appealed the Tax Court's decision to the U.S. Court of Appeals for the Third Circuit (Third Circuit). In December 2011, the Third Circuit issued its opinion reversing the Tax Court's decision, holding that the U.K. WPT is not a creditable tax. As a result of the Third Circuit's adverse determination, PPL recorded a $39 million expense in the fourth quarter of 2011. In February 2012, PPL filed a petition for rehearing of the Third Circuit opinion. In March 2012, the Third Circuit denied PPL's petition. PPL is considering whether to file a petition for a writ of certiorari with the U.S. Supreme Court.

Pending Bluegrass CTs Acquisition and NGCC Construction

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run plant site. In conjunction with this request and to meet new, stricter EPA regulations, LG&E and KU anticipate retiring six older coal-fired electric generating units. These units are located at the Cane Run, Green River and Tyrone plants, which have a combined summer rating of 797 MW. LG&E and KU also requested approval to purchase the Bluegrass CTs, which are expected to provide up to 495 MW of peak generation supply. In November 2011, LG&E and KU filed an application with the FERC under the Federal Power Act requesting approval to purchase the Bluegrass CTs.

LG&E and KU anticipate that the NGCC construction and the acquisition of the Bluegrass CTs could require up to $800 million (comprised of up to $300 million for LG&E and up to $500 million for KU) in capital costs including related transmission projects. Formal requests for recovery of the costs associated with the NGCC construction and the acquisition of the Bluegrass CTs were not included in the CPCN filing with the KPSC but are expected to be included in future rate proceedings. In May 2012, the KPSC issued an order approving the request to build the NGCC and purchase the Bluegrass CTs. Also, on May 4, 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to implementation of satisfactory mitigation measures to address market-power concerns. FERC approval of the proposed mitigation measures is required. LG&E and KU are reviewing the order's conditions and their impact on the closing conditions under the Bluegrass CTs purchase contract, as well as other regulatory, operational and economic aspects of the transaction. See Notes 6 and 8 to the Financial Statements for additional information.

Regional Transmission Line Expansion Plan

PPL Electric has experienced delays in obtaining necessary National Park Service (NPS) approvals for the Susquehanna-Roseland transmission line and anticipates a delay of the line's in-service date to 2015. In March 2012, the NPS announced that the route proposed by PPL Electric and PSE&G, previously approved by the Pennsylvania and New Jersey public utility commissions, is the preferred route for the line under the NPS's National Environmental Policy Act review. The NPS has stated that it expects to issue its record of decision in October 2012. An appeal of the New Jersey Board of Public Utilities approval of the line is pending before the New Jersey Superior Court Appellate Division. PPL Electric cannot predict the ultimate outcome or timing of the NPS approval or any further legal challenges to the project. PJM has developed a strategy to manage potential reliability problems until the line is built. PPL Electric cannot predict what additional actions, if any, PJM might take in the event of further delay to its scheduled in-service date for the new line. See Note 8 in PPL's 2011 Form 10-K for additional information.

Ofgem Review of Line Loss Calculation

WPD has a $173 million liability recorded at March 31, 2012 compared with $170 million at December 31, 2011, calculated in accordance with Ofgem's accepted methodology, related to the close-out of line losses for the prior price control period, DPCR4. Ofgem is currently consulting on the methodology used to calculate the final line loss incentive/penalty for the DPCR4. In October 2011, Ofgem issued a consultation paper citing two potential changes to the methodology, both of which would result in a reduction of the liability. In March 2012, Ofgem issued a decision regarding the preferred methodology and in April 2012 WPD submitted further data as requested by Ofgem. PPL cannot predict the outcome of this matter, but expects resolution to occur before the end of 2012.

Results of Operations

The following discussion provides a review of results by reportable segment and a description of factors by segment expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on PPL's Statements of Income, comparing the three months ended March 31, 2012 with the same period in 2011.

On April 1, 2011, PPL completed its acquisition of WPD Midlands. As a result, the results of operations of WPD Midlands are included in PPL's results for the three months ended March 31, 2012, with no comparable amounts for the same period in 2011. When discussing PPL's results of operations for 2012 compared with 2011, the results of WPD Midlands are isolated for purposes of comparability. WPD Midlands' results are included within the U.K. Regulated segment (formerly the International Regulated segment, renamed in 2012). See Note 8 to the Financial Statements for additional information regarding the acquisition.

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

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

Segment Results

Kentucky Regulated Segment

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

Net Income Attributable to PPL Corporation includes the following results:

	Three Months Ended March 31,		
	2012	2011	% Change
Utility revenues	$ 705	$ 766	(8)
Fuel and energy purchases	287	322	(11)
Other operation and maintenance	206	181	14
Depreciation	86	81	6
Taxes, other than income	11	9	22
Total operating expenses	590	593	(1)
Other Income (Expense) - net	(3)	(1)	200
Interest Expense (a)	55	54	2
Income Taxes	15	43	(65)
Net Income Attributable to PPL Corporation	$ 42	$ 75	(44)

(a) Includes allocated interest expense of $17 million in 2012 and $18 million in 2011 related to the 2010 Equity Units and interest rate swaps.

The changes in the components of the Kentucky Regulated segment's results between these periods were due to the following factors, which are adjusted for certain items that management considers special. See additional detail of these special items in the table below.

Kentucky Gross Margins	$ (28)
Other operation and maintenance	(22)
Depreciation	(4)
Taxes, other than income	(2)
Other Income (Expense) - net	(2)
Interest Expense	(1)
Income Taxes	22
Special Items, after-tax	4
Total	$ (33)

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Kentucky Gross Margins.

- Higher other operation and maintenance expense due to $11 million of higher steam maintenance costs primarily resulting from an increased scope of scheduled plant outages, a $6 million credit to establish a regulatory asset recorded in the first quarter of 2011 related to 2009 storm costs and $3 million of higher storm restoration and vegetation management costs.

- Lower income taxes primarily due to the change in pre-tax income.

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

	Income Statement Line Item	Three Months Ended March 31, 2012	2011
Special items gains (losses), net of tax (expense) benefit:			
LKE acquisition-related adjustments:			
Net operating loss carryforward and other tax related adjustments	Income Taxes and Other O&M	$ 4	
Total		$ 4	

Outlook

Excluding special items, PPL projects lower segment earnings in 2012 compared with 2011, primarily driven by higher operation and maintenance expense and higher depreciation, which are expected to be partially offset by higher margins.

Earnings in 2012 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, and Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in PPL's 2011 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

U.K. Regulated Segment

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

Net Income Attributable to PPL Corporation includes the following results:

	Three Months Ended March 31, 2012	2011	% Change
Utility revenues	$ 228	$ 216	6
Energy-related businesses	10	9	11
Total operating revenues	238	225	6
Other operation and maintenance	55	42	31
Depreciation	31	30	3
Taxes, other than income	14	13	8
Energy-related businesses	5	4	25
Total operating expenses	105	89	18
Other Income (Expense) - net	(21)	(1)	2,000
Interest Expense (a)	47	40	18
Income Taxes	19	21	(10)
WPD Midlands, after-tax (b)	123		n/a
WPD Midlands acquisition-related costs, net of tax	(4)	(19)	(79)
Net Income Attributable to PPL Corporation	$ 165	$ 55	200

(a) 2012 includes allocated interest expense of $12 million related to the 2011 Equity Units.
(b) Represents the operations of WPD Midlands for the three months ended March 31, 2012 including revenue from external customers of $324 million (pre-tax). This amount excludes acquisition-related costs incurred by WPD Midlands.

The changes in the components of the U.K. Regulated segment's results between these periods were due to the following factors, which are adjusted for certain items that management considers special. See additional detail of these special items in the table below. The amounts for PPL WW are presented on a constant U.K. foreign currency exchange rate basis in order to isolate the impact of the change in the exchange rate.

PPL WW	
Utility revenues	$ 15
Other operation and maintenance	(10)
Interest expense	4
Other	(2)
Income taxes	(2)
WPD Midlands, after-tax	124
U.S.	
Interest expense and other	(18)
Income taxes	(3)
Special items	2
Total	$ 110

PPL WW

- Higher utility revenues due to $36 million from a price increase in April 2011, partially offset by $13 million from lower volumes resulting from the downturn in the economy and weather, and $7 million of lower regulatory recovery due to a charge to income from an estimated over-recovery position in 2012, compared to a credit to income in 2011.

- Higher other operation and maintenance expense due to $5 million of higher pension expense resulting from higher amortization of prior period actuarial losses.

U.S.

- Higher U.S. interest expense and other due to $12 million of higher interest expense as a result of the 2011 Equity Units issued to finance the WPD Midlands acquisition.

The following after-tax amounts, which management considers special items, also impacted the U.K. Regulated segment's results.

	Income Statement Line Item	Three Months Ended March 31, 2012	2011
Special items gains (losses), net of tax (expense) benefit:			
Foreign currency-related economic hedges, net of tax of $7, $1 (a)	Other Income-net	$ (14)	$ (1)
WPD Midlands acquisition-related adjustments:			
2011 Bridge Facility costs, net of tax of $0, $2 (b)	Interest Expense		(5)
Net hedge losses, net of tax of $0, $3 (c)	Other Income-net		(4)
Separation benefits, net of tax of $2, $0 (d)	Other O&M	(4)	
Other acquisition-related costs, net of tax of $0, $1 (e)	Other Income-net		(10)
Total		$ (18)	$ (20)

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated earnings denominated in GBP.
(b) Represents amortization of fees incurred in connection with establishing the 2011 Bridge Facility.
(c) Primarily represents unrealized losses on foreign currency economic hedges associated with the repayment of the 2011 Bridge Facility.
(d) Represents severance compensation expense for employees separating from the WPD Midlands companies as a result of a reorganization to transition the WPD Midlands companies to the same operating structure as WPD (South West) and WPD (South Wales).
(e) Represents advisory, accounting and legal fees.

Outlook

Excluding special items, PPL projects higher segment earnings in 2012 compared with 2011, primarily driven by four additional months of earnings from the WPD Midlands businesses and higher electricity delivery revenue. Partially offsetting these positive earnings drivers are higher income taxes, higher operation and maintenance expense, higher depreciation, higher financing costs and a less favorable currency exchange rate.

Earnings in 2012 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, and Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in PPL's 2011 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Pennsylvania Regulated Segment

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

Net Income Attributable to PPL Corporation includes the following results:

	Three Months Ended March 31,		
	2012	2011	% Change
Operating revenues			
External	$ 457	$ 554	(18)
Intersegment	1	4	(75)
Total operating revenues	458	558	(18)
Energy purchases			
External	153	251	(39)
Intersegment	21	6	250
Other operation and maintenance	140	130	8
Depreciation	39	33	18
Taxes, other than income	26	35	(26)
Total operating expenses	379	455	(17)
Other Income (Expense) - net	2		n/a
Interest Expense	24	24	
Income Taxes	20	23	(13)
Net Income	37	56	(34)
Net Income Attributable to Noncontrolling Interests	4	4	
Net Income Attributable to PPL Corporation	$ 33	$ 52	(37)

The changes in the components of the Pennsylvania Regulated segment's results between these periods were due to the following factors.

Pennsylvania gross delivery margins	$ (13)
Other operation and maintenance	(6)
Depreciation	(6)
Other	3
Income Taxes	3
Total	$ (19)

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Pennsylvania Gross Delivery Margins.

- Higher other operation and maintenance expense due to $3 million of higher payroll related costs, $3 million of higher support group costs and $2 million of higher vegetation management costs, partially offset by $5 million of lower PUC reportable storm costs.

- Higher depreciation expense due to a $5 million depreciation impact from PP&E additions, primarily related to the ongoing efforts to maintain and enhance the reliability of the delivery system, including the replacement of aging infrastructure.

- Lower income taxes primarily due to lower pre-tax income, which reduced income taxes by $9 million, partially offset by $4 million of benefits recorded in 2011 related to Pennsylvania Department of Revenue interpretive guidance on bonus depreciation.

Outlook

Excluding special items, PPL projects lower segment earnings in 2012 compared with 2011, primarily driven by higher operation and maintenance expense, higher depreciation, and lower distribution revenue, which are expected to be partially offset by higher transmission revenue and lower financing costs.

In March 2012, PPL Electric filed a request with the PUC to increase distribution rates by approximately $105 million. The PUC's review of the distribution rate increase is expected to take about nine months. The proposed distribution revenue rate increase would result in a 2.9% increase over PPL Electric's present rates and would be effective January 1, 2013. PPL Electric cannot predict the outcome of this proceeding.

Earnings in 2012 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, and Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in PPL's 2011 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Supply Segment

The Supply segment primarily consists of the energy marketing and trading activities, as well as the competitive generation and development operations of PPL Energy Supply.

Net Income Attributable to PPL Corporation includes the following results:

	Three Months Ended March 31,		
	2012	2011	% Change
Energy revenues			
External (a)	$ 2,290	$ 1,253	83
Intersegment	21	6	250
Energy-related businesses	98	112	(13)
Total operating revenues	2,409	1,371	76
Fuel and energy purchases			
External (a)	1,458	555	163
Intersegment	1	1	
Other operation and maintenance	248	233	6
Depreciation	72	64	13
Taxes, other than income	18	16	13
Energy-related businesses	97	109	(11)
Total operating expenses	1,894	978	94
Other Income (Expense) - net	5	15	(67)
Other-Than-Temporary Impairments		1	(100)
Interest Expense	48	49	(2)
Income Taxes	171	142	20
Income (Loss) from Discontinued Operations		3	(100)
Net Income Attributable to PPL Corporation	$ 301	$ 219	37

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

The changes in the components of the Supply segment's results between these periods were due to the following factors, which are adjusted for certain items that management considers special. See additional detail of these special items in the table below.

Unregulated gross energy margins	$ (87)
Other operation and maintenance	(11)
Depreciation	(8)
Other Income (Expense) - net	(10)
Other	(2)
Income Taxes	65
Discontinued operations, after-tax - excluding certain revenues and expenses included in margins	3
Special items, after-tax	132
Total	$ 82

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of Unregulated Gross Energy Margins.

- Higher other operation and maintenance expense due to $6 million of higher costs at the Susquehanna plant due to a combination of higher payroll-related costs, contractor costs and timing of projects, and $4 million of higher expenses at PPL EnergyPlus due primarily to payroll-related costs.

- Higher depreciation expense due to the depreciation impact of higher PP&E additions.

- Lower other income (expense) primarily due to $6 million of lower NDT fund earnings.

- Lower income taxes due to lower pre-tax income which reduced income taxes by $41 million, an $11 million benefit from a state tax rate adjustment recorded in 2012, and $11 million of Pennsylvania net operating loss valuation allowances recorded in 2011, driven primarily by the impact of bonus depreciation.

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

	Income Statement Line Item	Three Months Ended March 31, 2012	2011
Special items gains (losses), net of tax (expense) benefit:			
Adjusted energy-related economic activity, net, net of tax of ($102), ($12)	(a)	$ 150	$ 17
Impairments:			
Emission allowances, net of tax of $0, $0	Other O&M		(1)
Renewable energy credits, net of tax of $0, $1	Other O&M		(2)
Adjustments - nuclear decommissioning trust investments, net of tax of ($1), ($1)	Other Income-net	1	1
LKE acquisition-related adjustments:			
Sale of certain non-core generation facilities, net of tax of $0, ($1)	Disc. Operations		(1)
Other:			
Counterparty bankruptcy, net of tax of $5, $0 (b)	Other O&M	(6)	
Ash basin leak remediation adjustment, net of tax of ($1), $0	Other O&M	1	
Total		$ 146	$ 14

(a) See "Reconciliation of Economic Activity" below.
(b) In October 2011, a wholesale customer, SMGT, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy code. PPL EnergyPlus recorded an allowance for unpaid amounts under the long-term power contract. In March 2012, the U.S. Bankruptcy Court for the District of Montana approved the request to terminate the contract, effective April 1, 2012.

Reconciliation of Economic Activity

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

	Three Months Ended March 31, 2012	2011
Operating Revenues		
Unregulated retail electric and gas	$ 10	$ 4
Wholesale energy marketing	852	57
Operating Expenses		
Fuel	2	23
Energy Purchases	(591)	18
Energy-related economic activity (a)	273	102
Option premiums (b)		5
Adjusted energy-related economic activity	273	107
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010	21	78
Adjusted energy-related economic activity, net, pre-tax	$ 252	$ 29
Adjusted energy-related economic activity, net, after-tax	$ 150	$ 17

(a) See Note 14 to the Financial Statements for additional information.
(b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. Option premiums are recorded in "Wholesale energy marketing - Realized" and "Energy purchases - Realized" on the Statements of Income.

Outlook

Excluding special items, PPL projects lower segment earnings in 2012 compared with 2011. The decrease is primarily driven by lower energy margins as a result of lower energy and capacity prices and higher fuel costs, higher operation and maintenance expense and higher depreciation, which are expected to be partially offset by higher baseload generation.

Earnings in 2012 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, and Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in PPL's 2011 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

<u>Non-GAAP Financial Measures</u>

The following discussion includes financial information prepared in accordance with GAAP, as well as three non-GAAP financial measures: "Kentucky Gross Margins," "Pennsylvania Gross Delivery Margins" and "Unregulated Gross Energy Margins." These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL believes that these measures provide additional criteria to make investment decisions. These performance measures are used, in conjunction with other information, internally by senior management and the Board of Directors to manage the Kentucky Regulated, Pennsylvania Regulated and Supply segment operations, analyze each respective segment's actual results compared with budget and, in certain cases, to measure certain corporate financial goals used in determining variable compensation.

PPL's three non-GAAP financial measures include:

- "Kentucky Gross Margins" is a single financial performance measure of the Kentucky Regulated segment's electricity generation, transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expense and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. These mechanisms allow for recovery of certain expenses, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from the Kentucky Regulated segment's operations.

- "Pennsylvania Gross Delivery Margins" is a single financial performance measure of the Pennsylvania Regulated segment's electric delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance" expense, which is primarily Act 129 costs, and in "Taxes, other than income," which is primarily gross receipts tax. This performance measure includes PLR energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "PLR intersegment utility revenue (expense)" in the table below. As a result, this measure represents the net revenues from the Pennsylvania Regulated segment's electric delivery operations.

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

Reconciliation of Non-GAAP Financial Measures

The following table reconciles "Operating Income" to PPL's three non-GAAP financial measures for the three months ended March 31.

	2012					2011				
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues										
Utility	$ 705	$ 457		$ 552 (c)	$ 1,714	$ 766	$ 554		$ 216 (c)	$ 1,536
PLR intersegment utility revenue (expense) (d)		(21)	$ 21				(6)	$ 6		
Unregulated retail electric and gas			214	9 (g)	223			143	4	147
Wholesale energy marketing										
Realized			1,204	4 (e)	1,208			1,022	16 (e)	1,038
Unrealized economic activity				852 (f)	852				57 (f)	57
Net energy trading margins			8		8			11		11
Energy-related businesses				107	107				121	121
Total Operating Revenues	705	436	1,447	1,524	4,112	766	548	1,182	414	2,910
Operating Expenses										
Fuel	213		214	(3) (g)	424	215		284	(24) (g)	475
Energy purchases										
Realized	74	153	636	20 (e)	883	107	251	227	86 (e)	671
Unrealized economic activity				591 (f)	591				(18) (f)	(18)
Other operation and maintenance	22	22	4	658	706	21	18	4	540	583
Depreciation	13			251	264	12			196	208
Taxes, other than income		25	8	58	91		33	7	33	73
Energy-related businesses				102	102				113	113
Intercompany eliminations		(1)	1				(4)	1	3	
Total Operating Expenses	322	199	863	1,677	3,061	355	298	523	929	2,105
Discontinued operations								12	(12) (h)	
Total	$ 383	$ 237	$ 584	$ (153)	$ 1,051	$ 411	$ 250	$ 671	$ (527)	$ 805

(a) Represents amounts that are excluded from Margins.
(b) As reported on the Statement of Income.
(c) Primarily represents WPD's utility revenue.
(d) Primarily related to PLR supply sold by PPL EnergyPlus to PPL Electric.
(e) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements. The three months ended March 31, 2012, includes a net pre-tax loss of $21 million related to the monetization of certain full-requirement sales contracts. The three months ended March 31, 2011 includes a net pre-tax gain of $5 million related to the amortization of option premiums and a net pre-tax loss of $78 million related to the monetization of certain full-requirement sales contracts.
(f) Represents energy-related economic activity, which is subject to fluctuations in value due to market price volatility, as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements.
(g) Includes economic activity as described in "Commodity price risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements.
(h) Represents the net of certain revenues and expenses associated with certain businesses that are classified as discontinued operations. These revenues and expenses are not reflected in "Operating Income" on the Statements of Income.

Changes in Non-GAAP Financial Measures

The following table shows PPL's three non-GAAP financial measures for the three months ended March 31, as well as the change between periods. The factors that gave rise to the changes are described below the table.

	2012	2011	Change
Kentucky Gross Margins	$ 383	$ 411	$ (28)
PA Gross Delivery Margins by Component			
Distribution	$ 189	$ 208	$ (19)
Transmission	48	42	6
Total	$ 237	$ 250	$ (13)
Unregulated Gross Energy Margins by Region			
Non-trading			
Eastern U.S.	$ 489	$ 578	$ (89)
Western U.S.	87	82	5
Net energy trading	8	11	(3)
Total	$ 584	$ 671	$ (87)

Kentucky Gross Margins

Lower Kentucky gross margins due to $23 million of lower retail electric margins as volumes were impacted by unseasonably mild weather in the first quarter of 2012 as total heating degree days decreased by 26%.

Pennsylvania Gross Delivery Margins

Distribution

Margins decreased as weather had an unfavorable impact of $16 million on base distribution revenues.

Transmission

Margins increased primarily due to increased investment in plant and the recovery of additional costs through the FERC formula-based rates.

Unregulated Gross Energy Margins

Eastern U.S.

The changes in Eastern U.S. non-trading margins for the three months were:

Baseload energy and capacity (a)	$	(82)
Margins on the intermediate and peaking units (b)		(22)
Impact of non-core generation facilities sold in the first quarter of 2011		(12)
Higher nuclear fuel prices		(5)
Full-requirement sales contracts		(5)
Gas optimization and storage		(5)
Margins from retail electric business		7
Net coal and hydroelectric unit availability (c)		10
Nuclear generation volume (d)		25
	$	(89)

(a) Energy prices and capacity prices were lower in 2012.
(b) Capacity prices were lower in 2012.
(c) Coal unit availability was higher in 2012 compared to 2011, however, volumes were lower as a result of economic reductions.
(d) Volumes were higher due to an unplanned outage in March 2011 and an uprate in the third quarter of 2011.

Western U.S.

Non-trading margins were $13 million higher due to higher net wholesale prices, partially offset by $7 million of lower wholesale volumes.

Utility Revenues

The increase (decrease) in utility revenues was due to:

		Three Months Ended March 31, 2012 vs. March 31, 2011
Domestic:		
PPL Electric (a)		
Transmission rate base	$	6
Revenue related to delivery		
Price		14
Volume (b)		(28)
Revenue related to PLR energy supply (c)		(89)
Total PPL Electric		(97)
LKE		
Price (d)		10
Volume (e)		(78)
Other		7
Total LKE		(61)
Total Domestic		(158)

	Three Months Ended March 31, 2012 vs. March 31, 2011
U.K.:	
PPL WW	
Price (f)	36
Volume (g)	(13)
Recovery of allowed revenues (h)	(7)
Other	(4)
Total PPL WW	12
WPD Midlands (i)	324
Total U.K.	336
Total	$ 178

(a) See "Pennsylvania Gross Delivery Margins" for further information.
(b) Unseasonably mild weather had a $16 million unfavorable impact on volume.
(c) These changes in revenue had a minimal impact on earnings as the cost of supplying this energy as a PLR is passed through to the customer with no additional mark-up. These revenues are offset primarily with energy purchases in "Pennsylvania Gross Delivery Margins."
(d) Primarily due to an increase in the price of recoverable fuel costs. This change in revenue had a minimal impact on earnings as this revenue is offset primarily with fuel costs in "Kentucky Gross Margins."
(e) Primarily due to lower volumes resulting from unseasonably mild weather. This change in revenue is partially offset by a reduction in fuel costs and energy purchases in "Kentucky Gross Margins."
(f) Due to a price increase effective April 1, 2011.
(g) Primarily due to the downturn in the economy and weather.
(h) Primarily due to an estimated over-recovery position in 2012, compared to a credit to income in 2011.
(i) There are no comparable amounts in the 2011 period as WPD Midlands was acquired in April 2011.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense was due to:

	Three Months Ended March 31, 2012 vs. March 31, 2011
Domestic:	
Uncollectible accounts (a)	$ 14
Susquehanna nuclear plant costs	6
Stock based compensation	8
Pension and other postretirement benefit costs	5
LKE steam maintenance plant costs (b)	11
LKE storm costs (c)	6
Other	6
U.K.:	
PPL WW (d)	10
WPD Midlands (e)	57
Total	$ 123

(a) In October 2011, SMGT filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. This increase primarily reflects an $11 million increase to a reserve on unpaid amounts.
(b) Increase primarily due to steam maintenance costs, resulting from an increased scope of scheduled outages.
(c) A $6 million credit to establish a regulatory asset was recorded in the first quarter of 2011 related to 2009 storm costs.
(d) Increase includes $5 million of higher pension expenses resulting from the amortization of prior period actuarial losses.
(e) There are no comparable amounts in the 2011 period as WPD Midlands was acquired in April 2011.

Depreciation

The increase (decrease) in depreciation expense was due to:

	Three Months Ended March 31, 2012 vs. March 31, 2011
Additions to PP&E	$ 20
WPD Midlands (a)	36
Total	$ 56

(a) There are no comparable amounts in the 2011 period as WPD Midlands was acquired in April 2011.

Taxes, Other Than Income

The increase (decrease) in taxes, other than income was due to:

	Three Months Ended March 31, 2012 vs. March 31, 2011
Pennsylvania gross receipts tax (a)	$ (7)
WPD Midlands (b)	22
Other	3
Total	$ 18

(a) Primarily due to a decrease in taxable electric revenues. This tax is included in "Unregulated Gross Energy Margins" and "Pennsylvania Gross Delivery Margins."
(b) There are no comparable amounts in the 2011 period as WPD Midlands was acquired in April 2011.

Other Income (Expense) - net

The $12 million decrease in other income (expense) - net for the three months ended March 31, 2012 compared with the same period in 2011 was primarily due to:

- a $7 million decrease in earnings on securities in NDT funds;
- a $16 million increase in a loss from economic foreign currency exchange contracts; partially offset by
- a $7 million loss from foreign currency forward contracts in 2011 that hedged the anticipated repayment of borrowings under the 2011 Bridge Facility; and
- $11 million of WPD Midlands acquisition-related costs recorded in 2011.

See Note 12 to the Financial Statements for additional information.

Interest Expense

The increase (decrease) in interest expense was due to:

	Three Months Ended March 31, 2012 vs. March 31, 2011
Interest rates (excluding 2011 Equity Units) (a)	$ (11)
Debt balances (excluding 2011 Equity Units)	4
WPD Midlands (b)	56
2011 Bridge Facility costs related to the acquisition of WPD Midlands	(7)
2011 Equity Units (c)	12
Hedging activities	9
Other	(7)
Total	$ 56

(a) Lower average long-term interest rates due to a weighted average rate of 4.75% for the three months ended March 31, 2012 compared with a rate of 5.03% for the same period in 2011.
(b) There are no comparable amounts in the 2011 period as WPD Midlands was acquired in April 2011.
(c) Interest related to the issuance in April 2011 to support the WPD Midlands acquisition.

Income Taxes

The increase (decrease) in income taxes was due to:

	Three Months Ended March 31, 2012 vs. March 31, 2011
Higher pre-tax book income	$ 7
State valuation allowance adjustments (a)	(11)
Federal and state tax return adjustments	3
U.S. income tax on foreign earnings net of foreign tax credit (b)	8
Net operating loss carryforward adjustment (c)	(6)
Depreciation not normalized (a)	2
WPD Midlands (d)	34
State deferred tax rate change (e)	(11)
Intercompany interest on WPD financing entities	6
Other	4
Total	$ 36

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

Additionally, the 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation. The federal provision for 100% bonus depreciation generally applies to property placed in service before January 1, 2012. The placed in service deadline is extended to January 1, 2013 for property that exceeds $1 million, has a production period longer than one year and has a tax life of at least 10 years.
(b) During the three months ended March 31, 2011, PPL recorded a $7 million federal income tax benefit related to U.K. pension contributions.
(c) During the three months ended March 31, 2012, PPL recorded an adjustment to deferred taxes related to net operating loss carryforwards of LKE.
(d) There are no comparable amounts in the 2011 period as WPD Midlands was acquired in April 2011.
(e) During the three months ended March 31, 2012, PPL recorded an $11 million adjustment related to state deferred tax liabilities.

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

Financial Condition

Liquidity and Capital Resources

PPL had the following at:

	March 31, 2012	December 31, 2011
Cash and cash equivalents	$ 1,103	$ 1,202
Short-term investments		16
	$ 1,103	$ 1,218
Short-term debt	$ 674	$ 578

At March 31, 2012, $501 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL may be subject to additional U.S. taxes, net of allowable foreign tax credits. Historically, dividends paid by foreign subsidiaries have been distributions of the current year's earnings. See Note 5 to the Financial Statements in PPL's 2011 Form 10-K for additional information on undistributed earnings of WPD.

The $99 million decrease in PPL's cash and cash equivalents position was primarily the net result of:

- $682 million of capital expenditures; and
- the payment of $203 million of common stock dividends; partially offset by
- $728 million of cash provided by operating activities; and
- a net increase in short-term debt of $93 million.

PPL's cash provided by operating activities increased $532 million for the three months ended March 31, 2012 compared with the same period in 2011. The increase was primarily due to:

- cash from components of working capital of $238 million, primarily related to changes in counterparty collateral;
- lower defined benefit plan contributions of $223 million; and
- operating cash provided by WPD Midlands of $150 million.

Credit Facilities

At March 31, 2012, PPL's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued and Commercial Paper Backstop	Unused Capacity
PPL Energy Supply Credit Facilities	$ 3,200		$ 778	$ 2,422
PPL Electric Credit Facilities (a)	350		1	349
LG&E Credit Facility	400			400
KU Credit Facilities	598		198	400
Total Domestic Credit Facilities (b)	$ 4,548		$ 977	$ 3,571
PPL WW Credit Facility	£ 150	£ 110	n/a	£ 40
WPD (South West) Credit Facility (c)	245		n/a	245
WPD (East Midlands) Credit Facility	300		£ 70	230
WPD (West Midlands) Credit Facility	300		71	229
Total WPD Credit Facilities (d)	£ 995	£ 110	£ 141	£ 744

(a) In April 2012, PPL Electric increased the capacity of its syndicated credit facility from $200 million to $300 million.

Committed capacity includes a $150 million credit facility related to an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary pledges these assets to secure loans of up to an aggregate of $150 million from a commercial paper conduit sponsored by a financial institution. At March 31, 2012, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under the facility was limited to $82 million.

(b) The commitments under PPL's domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 9% of the total committed capacity.

(c) In January 2012, WPD (South West) entered into a new £245 million syndicated credit facility to replace its existing £210 million syndicated credit facility. Under the new facility, WPD (South West) has the ability to make cash borrowings but cannot request the lenders to issue letters of credit. WPD (South West) pays customary commitment fees under this facility, and borrowings bear interest at LIBOR-based rates plus a margin. The facility contains financial covenants that require WPD (South West) to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, in each case calculated in accordance with the credit facility.

(d) At March 31, 2012, the unused capacity of WPD's committed credit facilities was approximately $1.2 billion. The commitments under WPD's credit facilities are provided by a diverse bank group with no one bank providing more than 16% of the total committed capacity.

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

Commercial Paper

In April 2012, PPL Energy Supply increased the capacity of its commercial paper program from $500 million to $750 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At March 31, 2012, PPL Energy Supply had $500 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of approximately 0.47%.

PPL Electric maintains a commercial paper program for up to $200 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility. PPL Electric had no commercial paper outstanding at March 31, 2012.

In February 2012, LG&E and KU each established a commercial paper program for up to $250 million to provide an additional financing source to fund their short-term liquidity needs. Commercial paper issuances will be supported by LG&E and KU's Syndicated Credit Facilities. LG&E and KU had no commercial paper outstanding at March 31, 2012.

Long-term Debt and Equity Securities

In April 2012, PPL made a registered underwritten public offering of 9.9 million shares of its common stock. In conjunction with that offering, the underwriters exercised an option to purchase an additional 590,880 shares of PPL common stock solely to cover over-allotments.

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the 9.9 million shares of PPL's common stock. Settlement of these initial forward sale agreements will occur no later than April 2013. As a result of the underwriters' exercise of the overallotment option, PPL entered into additional forward sale agreements covering the additional 590,880 shares of common stock. Settlement of the subsequent forward sale agreements will occur in July 2013. Upon any physical settlement of any forward sale agreement, PPL will issue and deliver to the forward counterparties shares of its common stock in exchange for cash proceeds per share equal to the forward sale price. The forward sale price will be calculated based on an initial forward price of $27.02 per share reduced during the period the contracts are outstanding as specified in the forward sale agreements. PPL may, in certain circumstances, elect cash settlement or net share settlement for all or a portion of its rights or obligations under the forward sale agreements.

PPL will not receive any proceeds or issue any shares of common stock until settlement of the forward sale agreements. PPL intends to use any net proceeds that it receives upon settlement to repay short-term debt obligations and for other general corporate purposes.

The forward sale agreements will be classified as equity transactions. As a result, no amounts will be recorded in the consolidated financial statements until the settlement of the forward sale agreements. Prior to those settlements, the only impact to the financial statements will be the inclusion of incremental shares within the calculation of diluted EPS using the treasury stock method.

Also in April 2012, WPD (East Midlands) issued £100 million aggregate principal amount of 5.25% Senior Notes due 2023. WPD (East Midlands) received proceeds of approximately £111 million, which equated to $178 million at the time of issuance, net of underwriting fees. The net proceeds will be used for general corporate purposes.

In April 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the Ironwood Acquisition. See Note 8 to the Financial Statements for information on the transaction and the debt of PPL Ironwood, LLC assumed through consolidation as part of the acquisition.

In April 2012, PPL Electric gave notice that it had elected to redeem all 2.5 million shares of its 6.25% Series Preference Stock, par value $100 per share, on June 18, 2012. The price to be paid for the redemption is the par value, without premium ($250 million in the aggregate). The Preference Stock is reflected on PPL's Balance Sheets in "Noncontrolling Interests" as of March 31, 2012 and December 31, 2011.

In April 2012, LKE filed a Form S-4 Registration Statement with the SEC, as required by a registration rights agreement entered into in connection with the issuance of senior notes in September 2011, in a transaction not registered under the Securities Act of 1933. The Form S-4 relates to an offer to exchange the senior notes issued in September 2011, with similar but registered securities. See Note 7 in PPL's and LKE's 2011 Form 10-K for additional information.

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

Common Stock Dividends

In February 2012, PPL declared its quarterly common stock dividend, payable April 2, 2012, at 36.0 cents per share (equivalent to $1.44 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

Rating Agency Actions

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

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

As a result of the passage of the Dodd-Frank Act, PPL is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to PPL's ratings, but without stating what ratings have been assigned to PPL or its subsidiaries, or their securities. The ratings assigned by the rating agencies to PPL and its subsidiaries and their respective securities may be found, without charge, on each of the respective rating agencies' websites, which ratings together with all other information contained on such rating agency websites is hereby explicitly not incorporated by reference in this report.

The rating agencies took the following actions related to PPL and its subsidiaries.

In January 2012, S&P affirmed its rating and revised its outlook to stable from positive for PPL Montana's Pass Through Certificates due 2020.

In February 2012, Fitch assigned ratings to the two newly established commercial paper programs for LG&E and KU.

In March 2012, Moody's affirmed the following ratings:

- the long-term ratings of the First Mortgage Bonds for LG&E and KU;
- the issuer ratings for LG&E and KU; and
- the bank loan ratings for LG&E and KU.

Also in March 2012, Moody's and S&P each assigned short-term ratings to the two newly established commercial paper programs for LG&E and KU.

Following the announcement of the then-pending acquisition of AES Ironwood, L.L.C. in February 2012, the rating agencies took the following actions:

In March 2012, Moody's placed AES Ironwood, L.L.C.'s senior secured bonds under review for possible ratings upgrade.

In April 2012, S&P affirmed the rating of AES Ironwood, L.L.C.'s senior secured bonds.

Ratings Triggers

PPL and PPL Energy Supply have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements and interest rate and foreign currency instruments, which contain provisions requiring PPL and PPL Energy Supply to post additional collateral, or permit the counterparty to terminate the contract, if PPL's or PPL Energy Supply's credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at March 31, 2012. At March 31, 2012, if PPL's and PPL Energy Supply's credit ratings had been below investment grade, PPL would have been required to prepay or post an additional $527 million of collateral to counterparties for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations and interest rate and foreign currency contracts.

For additional information on PPL's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL's 2011 Form 10-K.

Risk Management

Market Risk

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

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

Commodity Price Risk (Non-trading)

PPL segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL's generation assets, full-requirement sales contracts and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. The fair value of economic positions at March 31, 2012 and December 31, 2011 was a net asset of $816 million and a net liability of $63 million. The change in fair value is largely attributable to the dedesignation of cash flow hedges that are now classified as economic hedges. See Note 14 to the Financial Statements for additional information.

To hedge the impact of market price volatility on PPL's energy-related assets, liabilities and other contractual arrangements, PPL both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL's non-trading commodity derivative contracts mature at various times through 2019.

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

	Gains (Losses)	
	Three Months Ended March 31,	
	2012	2011
Fair value of contracts outstanding at the beginning of the period	$ 1,082	$ 947
Contracts realized or otherwise settled during the period	(279)	(43)
Fair value of new contracts entered into during the period (a)	(1)	(16)
Other changes in fair value	413	109
Fair value of contracts outstanding at the end of the period	$ 1,215	$ 997

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of PPL's non-trading commodity derivative contracts at March 31, 2012, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

	Net Asset (Liability)				
Source of Fair Value	**Maturity Less Than 1 Year**	**Maturity 1-3 Years**	**Maturity 4-5 Years**	**Maturity in Excess of 5 Years**	**Total Fair Value**
Prices based on significant other observable inputs	$ 854	$ 349	$ (17)	$ 10	$ 1,196
Prices based on significant unobservable inputs	10	5	4		19
Fair value of contracts outstanding at the end of the period	$ 864	$ 354	$ (13)	$ 10	$ 1,215

PPL sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their own counterparties) with which it has energy contracts and other factors could affect PPL's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future. In connection with its bankruptcy proceedings, a significant counterparty, SMGT, had been purchasing lower volumes of electricity than prescribed in the contract and effective April 1, 2012 the contract was terminated. At this time, PPL Energy Supply cannot predict the prices or other terms on which it will be able to market to third parties the power that SMGT will not purchase from PPL EnergyPlus due to the termination of this contract. See Note 10 to the Financial Statements for additional information.

Commodity Price Risk (Trading)

PPL's trading commodity derivative contracts mature at various times through 2016. The following table sets forth changes in the net fair value of PPL's trading commodity derivative contracts. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses) Three Months Ended March 31,	
	2012	**2011**
Fair value of contracts outstanding at the beginning of the period	$ (4)	$ 4
Contracts realized or otherwise settled during the period		2
Fair value of new contracts entered into during the period (a)	6	3
Other changes in fair value		(2)
Fair value of contracts outstanding at the end of the period	$ 2	$ 7

(a) Represents the fair value of contracts at the end of the quarter of their inception.

Unrealized losses of approximately $5 million will be reversed over the next three months as the transactions are realized.

The following table segregates the net fair value of trading commodity derivative contracts at March 31, 2012, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

	Net Asset (Liability)				
Source of Fair Value	**Maturity Less Than 1 Year**	**Maturity 1-3 Years**	**Maturity 4-5 Years**	**Maturity in Excess of 5 Years**	**Total Fair Value**
Prices based on significant other observable inputs	$ (8)	$ 8	$ 2		$ 2
Fair value of contracts outstanding at the end of the period	$ (8)	$ 8	$ 2		$ 2

VaR Models

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

	Trading VaR		Non-Trading VaR	
	Three Months Ended March 31, 2012	Twelve Months Ended December 31, 2011	Three Months Ended March 31, 2012	Twelve Months Ended December 31, 2011
95% Confidence Level, Five-Day Holding Period				
Period End	$ 2	$ 1	$ 7	$ 6
Average for the Period	2	3	8	5
High	2	6	9	7
Low	1	1	7	4

The trading portfolio includes all speculative positions, regardless of the delivery period. All positions not considered speculative are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at March 31, 2012.

Interest Rate Risk

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

At March 31, 2012, PPL's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL is also exposed to changes in the fair value of its domestic and U.K. debt portfolios. PPL estimated that a 10% decrease in interest rates at March 31, 2012 would increase the fair value of its debt portfolio by $620 million.

At March 31, 2012, PPL had the following interest rate hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)
Cash flow hedges			
Interest rate swaps (c)	$ 175		$ (4)
Cross-currency swaps (d)	1,262	$ 35	(185)
Fair value hedges			
Interest rate swaps (e)	99	3	
Economic hedges			
Interest rate swaps (f)	179	(54)	(4)

(a) Includes accrued interest, if applicable.
(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
(c) PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any changes in the fair value of such cash flow hedges are recorded in equity. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at March 31, 2012 mature in 2022.
(d) PPL WEM, through PPL, and PPL WW use cross-currency swaps to hedge the interest payments and principal of their U.S. dollar-denominated senior notes. The maturity dates of positions outstanding at March 31, 2012 range from May 2016 to December 2028. While PPL is exposed to changes in the fair value of these instruments, any change in the fair value of these instruments is recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in both interest rates and foreign currency exchange rates.
(e) PPL utilizes various risk management instruments to adjust the mix of fixed and floating interest rates in its debt portfolio. The change in fair value of these instruments, as well as the offsetting change in the value of the hedged exposure of the debt, is reflected in earnings. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at March 31, 2012 mature in 2047.
(f) PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such economic hedges are recoverable through regulated rates

and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at March 31, 2012 mature through 2033.

Foreign Currency Risk

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

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

At March 31, 2012, PPL had the following foreign currency hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)
Net investment hedges (b)	£ 55	$ 1	$ (9)
Economic hedges (c)	761	(9)	(112)

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
(b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP.
(c) To economically hedge the translation of expected income denominated in GBP to U.S. dollars, PPL enters into a combination of average rate forwards and average rate options to sell GBP. The forwards and options outstanding at March 31, 2012, have termination dates ranging from April 2012 through September 2013.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the Susquehanna nuclear plant. At March 31, 2012, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on PPL's Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its NDT policy statement. At March 31, 2012, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated $48 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL's 2011 Form 10-K for additional information.

Foreign Currency Translation

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in these exchange rates resulted in a foreign currency translation gain of $76 million for the three months ended March 31, 2012, which primarily reflected a $141 million increase to PP&E offset by an increase of $65 million to net liabilities. Changes in these exchange rates resulted in a foreign currency translation gain of $67 million for the three months ended March 31, 2011, which primarily reflected a $158 million increase to PP&E offset by an increase of $91 million to net liabilities. The impact of foreign currency translation is recorded in AOCI.

Related Party Transactions

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

Acquisitions, Development and Divestitures

See Note 8 to the Financial Statements for information on the April 2012 Ironwood Acquisition.

See Note 10 to the Financial Statements in PPL's 2011 Form 10-K and Note 8 to the Financial Statements for information on PPL's April 2011 acquisition of WPD Midlands.

Development projects are continuously reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. See Note 8 to the Financial Statements for additional information on the more significant activities.

Environmental Matters

Protection of the environment is a priority for PPL and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to PPL's air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc., and may impact the cost for their products or their demand for PPL's services. See "Item 1. Business - Environmental Matters" in PPL's 2011 Form 10-K and Note 10 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Notes 2 and 18 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: price risk management, defined benefits, asset impairment, loss accruals, AROs, income taxes, regulatory assets and liabilities and business combinations - purchase price allocation. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL's 2011 Form 10-K for a discussion of each critical accounting policy.

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

The following should be read in conjunction with PPL Energy Supply's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL Energy Supply's 2011 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of PPL Energy Supply and its business strategy, a summary of Net Income Attributable to PPL Energy Supply and a discussion of certain events related to PPL Energy Supply's results of operations and financial condition.

- "Results of Operations" provides a summary of PPL Energy Supply's earnings and a description of factors expected to impact future earnings. This section ends with explanations of significant changes in principal items on PPL Energy Supply's Statements of Income, comparing the three months ended March 31, 2012 with the same period in 2011.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL Energy Supply's liquidity position and credit profile.

- "Financial Condition - Risk Management" provides an explanation of PPL Energy Supply's risk management programs relating to market and credit risk.

Overview

Introduction

PPL Energy Supply is an energy company with headquarters in Allentown, Pennsylvania. Through its subsidiaries, PPL Energy Supply is primarily engaged in the generation and marketing of electricity in two key markets - the northeastern and northwestern U.S.

Business Strategy

PPL Energy Supply's overall strategy is to achieve disciplined optimization of energy supply margins while mitigating volatility in both cash flows and earnings. More specifically, PPL Energy Supply's strategy is to optimize the value from its unregulated generation and marketing portfolio. PPL Energy Supply endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk.

To manage financing costs and access to credit markets, a key objective of PPL Energy Supply's business is to maintain a strong credit profile. PPL Energy Supply continually focuses on maintaining an appropriate capital structure and liquidity position. In addition, PPL Energy Supply has financial and operational risk management programs that, among other things, are designed to monitor and manage its exposure to earnings and cash flow volatility related to changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of its generating units.

Financial and Operational Developments

Net Income Attributable to PPL Energy Supply

	Three Months Ended March 31,		
	2012	2011	% Change
Net Income Attributable to PPL Energy Supply	$ 309	$ 214	44

See "Results of Operations" for a discussion and analysis of PPL Energy Supply's earnings.

Ironwood Acquisition

In April 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the acquisition from a subsidiary of the AES Corporation of all of the equity interests of AES Ironwood, L.L.C. (subsequently renamed PPL Ironwood, LLC) and AES Prescott, L.L.C. (subsequently renamed PPL Prescott, LLC), which own and operate, respectively, the Ironwood Facility. The Ironwood Facility began operation in 2001 and, since 2008, PPL EnergyPlus has supplied natural gas for the operation of the Ironwood Facility and received the facility's full electricity output and capacity value pursuant to a tolling agreement that expires in 2021. The acquisition provides PPL Energy Supply, through its subsidiaries, operational control of additional combined-cycle gas generation in PJM.

See Note 8 to the Financial Statements for additional information.

Bankruptcy of SMGT

In October 2011, SMGT, a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus expiring in June 2019 (SMGT Contract), filed for protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Montana. At the time of the bankruptcy filing, SMGT was PPL EnergyPlus' largest unsecured credit exposure.

The SMGT Contract provided for fixed volume purchases on a monthly basis at established prices. Pursuant to a court order and subsequent stipulations entered into between the SMGT bankruptcy trustee and PPL EnergyPlus, since the date of its Chapter 11 filing through January 2012, SMGT continued to purchase electricity from PPL EnergyPlus at the price specified in the SMGT Contract, and made timely payments for such purchases, but at lower volumes than as prescribed in the SMGT Contract. In January 2012, the trustee notified PPL EnergyPlus that SMGT would not purchase electricity under the SMGT Contract for the month of February. In March 2012, the U.S. Bankruptcy Court for the District of Montana issued an order approving the request of the SMGT bankruptcy trustee and PPL EnergyPlus to terminate the SMGT Contract. As a result, the SMGT Contract was terminated effective April 1, 2012, allowing PPL EnergyPlus to resell the electricity previously contracted to SMGT under the SMGT Contract to other customers.

PPL EnergyPlus' receivable under the SMGT Contract totaled approximately $22 million at March 31, 2012, which has been fully reserved. No assurance can be given as to the collectability of the receivable.

At this time, PPL Energy Supply cannot predict the prices and other terms on which it will be able to market to third parties the power that SMGT will not purchase from PPL EnergyPlus due to the termination of the SMGT Contract.

Results of Operations

The following discussion provides a summary of PPL Energy Supply's earnings and a description of factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on PPL Energy Supply's Statements of Income, comparing the three months ended March 31, 2012 with the same period in 2011.

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

Earnings

	Three Months Ended March 31,	
	2012	2011
Net Income Attributable to PPL Energy Supply	$ 309	$ 214

The changes in the components of Net Income Attributable to PPL Energy Supply between these periods were due to the following factors, which are adjusted for certain items that management considers special. See additional detail of these special items in the tables below.

Unregulated gross energy margins	$	(87)
Other operation and maintenance		(6)
Depreciation		(5)
Other Income (Expense) - net		(9)
Interest Expense		9
Other		(1)
Income Taxes		59
Discontinued operations, after-tax - excluding certain revenues and expenses included in margins		3
Special items, after-tax		132
Total	$	95

- See "Statement of Income Analysis - Unregulated Gross Energy Margins - Changes in Non-GAAP Financial Measures" for an explanation of Unregulated Gross Energy Margins.

- Higher other operation and maintenance expense due to $6 million of higher costs at the Susquehanna plant due to a combination of higher payroll-related costs, contractor costs and timing of projects and $4 million of higher expenses at PPL EnergyPlus due primarily to payroll-related costs and $2 million higher allocated support group costs, partially offset by $9 million of trademark royalties with an affiliate in 2011 for which the agreement was terminated December 31, 2011.

- Higher depreciation expense due to the depreciation impact of higher PP&E additions.

- Lower other income (expense) primarily due to $6 million of lower NDT fund earnings.

- Lower interest expense due to $5 million of lower interest rates due primarily to the redemption of 7.00% Senior Unsecured Notes in July 2011 and $3 million of lower average short-term and long-term debt balances.

- Lower income taxes due to lower pre-tax income which reduced income taxes by $41 million, an $11 million benefit from a state tax rate adjustment recorded in 2012, and $6 million of Pennsylvania net operating loss valuation allowances recorded in 2011, driven primarily by the impact of bonus depreciation.

The following after-tax amounts, which management considers special items, also impacted the results.

	Income Statement Line Item	Three Months Ended March 31, 2012		2011	
Special items gains (losses), net of tax (expense) benefit:					
Adjusted energy-related economic activity, net, net of tax of ($102), ($12)	(a)	$	150	$	17
Impairments:					
Emission allowances, net of tax of $0, $0	Other O&M				(1)
Renewable energy credits, net of tax of $0, $1	Other O&M				(2)
Adjustments - nuclear decommissioning trust investments, net of tax of ($1), ($1)	Other Income-net		1		1
LKE acquisition-related adjustments:					
Sale of certain non-core generation facilities, net of tax of $0, ($1)	Disc. Operations				(1)
Other:					
Counterparty bankruptcy, net of tax of $5, $0 (b)	Other O&M		(6)		
Ash basin leak remediation adjustment, net of tax of ($1), $0	Other O&M		1		
Total		$	146	$	14

(a) See "Reconciliation of Economic Activity" below.
(b) In October 2011, a wholesale customer, SMGT, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy code. PPL EnergyPlus recorded an allowance for unpaid amounts under the long-term power contract. In March 2012, the U.S. Bankruptcy Court for the District of Montana approved the request to terminate the contract, effective April 1, 2012.

Reconciliation of Economic Activity

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

	Three Months Ended March 31, 2012	2011
Operating Revenues		
Unregulated retail electric and gas	$ 10	$ 4
Wholesale energy marketing	852	57
Operating Expenses		
Fuel	2	23
Energy Purchases	(591)	18
Energy-related economic activity (a)	273	102
Option premiums (b)		5
Adjusted energy-related economic activity	273	107
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010	21	78
Adjusted energy-related economic activity, net, pre-tax	$ 252	$ 29
Adjusted energy-related economic activity, net, after-tax	$ 150	$ 17

(a) See Note 14 to the Financial Statements for additional information.
(b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. Option premiums are recorded in "Wholesale energy marketing - Realized" and "Energy purchases - Realized" on the Statements of Income.

Outlook

Excluding special items, PPL Energy Supply projects lower earnings in 2012 compared with 2011. The decrease is primarily driven by lower energy margins as a result of lower energy and capacity prices and higher fuel costs, higher operation and maintenance expense and higher depreciation, which are expected to be partially offset by higher baseload generation.

Earnings in 2012 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2 and Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in PPL Energy Supply's 2011 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Unregulated Gross Energy Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Unregulated Gross Energy Margins." "Unregulated Gross Energy Margins" is a single financial performance measure of PPL Energy Supply's competitive energy non-trading and trading activities. In calculating this measure, PPL Energy Supply's energy revenues, which include operating revenues associated with certain PPL Energy Supply businesses that are classified as discontinued operations, are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges, gross receipts tax, which is recorded in "Taxes, other than income," and operating expenses associated with certain PPL Energy Supply businesses that are classified as discontinued operations. This performance measure is relevant to PPL Energy Supply due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant swings in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Wholesale energy marketing" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are recorded in "Wholesale energy marketing to affiliate" revenue. PPL Energy Supply excludes from "Unregulated Gross Energy Margins" energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of PPL Energy Supply's competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Also included in this energy-related economic activity is the ineffective portion of qualifying cash flow hedges, the monetization of certain full-requirement sales contracts and premium amortization associated with options. This economic activity is deferred, with the exception of the full-requirement sales contracts that were monetized, and included in unregulated gross energy margins over the delivery period that was hedged or upon realization. This measure is not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL Energy Supply believes that "Unregulated Gross Energy Margins" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management and PPL's Board of Directors to manage PPL Energy Supply's operations, analyze actual results compared with budget and measure certain corporate financial goals used in determining variable compensation.

Reconciliation of Non-GAAP Financial Measures

The following table reconciles "Operating Income" to "Unregulated Gross Energy Margins" as defined by PPL Energy Supply for the three months ended March 31.

	2012			2011		
	Unregulated Gross Energy Margins	**Other (a)**	**Operating Income (b)**	**Unregulated Gross Energy Margins**	**Other (a)**	**Operating Income (b)**
Operating Revenues						
Wholesale energy marketing						
Realized	$ 1,204	$ 4 (c)	$ 1,208	$ 1,022	$ 16 (c)	$ 1,038
Unrealized economic activity		852 (d)	852		57 (d)	57
Wholesale energy marketing to affiliate	21		21	6		6
Unregulated retail electric and gas	214	10	224	143	4	147
Net energy trading margins	8		8	11		11
Energy-related businesses		96	96		110	110
Total Operating Revenues	1,447	962	2,409	1,182	187	1,369
Operating Expenses						
Fuel	214	(3) (e)	211	284	(24) (e)	260
Energy purchases						
Realized	636	23 (c)	659	227	87 (c)	314
Unrealized economic activity		591 (d)	591		(18) (d)	(18)
Energy purchases from affiliate	1		1	1		1
Other operation and maintenance	4	251	255	4	241	245
Depreciation		64	64		59	59
Taxes, other than income	8	10	18	7	9	16
Energy-related businesses		92	92		108	108
Total Operating Expenses	863	1,028	1,891	523	462	985
Discontinued Operations				12	(12) (f)	
Total	$ 584	$ (66)	$ 518	$ 671	$ (287)	$ 384

(a) Represents amounts excluded from Margins.
(b) As reported on the Statements of Income.
(c) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements. The three months ended March 31, 2012, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" includes a net pre-tax loss of $21 million related to the monetization of certain full-requirement sales contracts. The three months ended March 31, 2011 includes a net pre-tax gain of $5 million related to the amortization of option premiums and a net pre-tax loss of $78 million related to the monetization of certain full-requirement sales contracts.
(d) Represents energy-related economic activity, which is subject to fluctuations in value due to market price volatility, as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements.
(e) Includes economic activity related to fuel as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements.
(f) Represents the net of certain revenues and expenses associated with certain businesses that are classified as discontinued operations. These revenues and expenses are not reflected in "Operating Income" on the Statements of Income.

Changes in Non-GAAP Financial Measures

Unregulated Gross Energy Margins are generated through PPL Energy Supply's competitive non-trading and trading activities. PPL Energy Supply's non-trading energy business is managed on a geographic basis that is aligned with its generation fleet. The following table shows PPL Energy Supply's non-GAAP financial measure, Unregulated Gross Energy Margins, for the three months ended March 31, as well as the change between periods. The factors that gave rise to the changes are described below the table.

	2012	**2011**	**Change**
Non-trading			
Eastern U.S.	$ 489	$ 578	$ (89)
Western U.S.	87	82	5
Net energy trading	8	11	(3)
Total	$ 584	$ 671	$ (87)

Unregulated Gross Energy Margins

Eastern U.S.

The changes in Eastern U.S. non-trading margins for the three months were:

Baseload energy and capacity (a)	$	(82)
Margins on the intermediate and peaking units (b)		(22)
Impact of non-core generation facilities sold in the first quarter of 2011		(12)
Higher nuclear fuel prices		(5)
Full-requirement sales contracts		(5)
Gas optimization and storage		(5)
Margins from retail electric business		7
Net coal and hydroelectric unit availability (c)		10
Nuclear generation volume (d)		25
	$	(89)

(a) Energy prices and capacity prices were lower in 2012.
(b) Capacity prices were lower in 2012.
(c) Coal unit availability was higher in 2012 compared to 2011, however, volumes were lower as a result of economic reductions.
(d) Volumes were higher due to an unplanned outage in March 2011 and an uprate in the third quarter of 2011.

Western U.S.

Non-trading margins were $13 million higher due to higher net wholesale prices, partially offset by $7 million of lower wholesale volumes.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense was due to:

	Three Months Ended March 31, 2012 vs. March 31, 2011	
Uncollectible accounts (a)	$	11
Susquehanna nuclear plant costs		6
Trademark royalties (b)		(9)
Other		2
Total	$	10

(a) In October 2011, SMGT filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. This increase primarily reflects an $11 million increase to a reserve on unpaid amounts.
(b) In 2011, PPL Energy Supply was charged trademark royalties by an affiliate. The agreement was terminated December 31, 2011.

Depreciation

Depreciation increased by $5 million for the three months ended March 31, 2012 compared with the same period in 2011, primarily due to PP&E additions.

Other Income (Expense) - net

The decrease of $9 million in other income (expense) - net for the three months ended March 31, 2012 compared with the same period in 2011 was primarily due to a $7 million decrease in earnings on securities in NDT funds.

See Note 12 to the Financial Statements for additional information.

Interest Expense

The increase (decrease) in interest expense was due to:

	Three Months Ended March 31, 2012 vs. March 31, 2011	
Interest rates (a)	$	(5)
Debt balances (b)		(3)
Other		(2)
Total	$	(10)

(a) Lower average long-term interest rates due to a weighted average rate of 5.88% for the three months ended March 31, 2012 compared with a rate of 6.24% for the same period in 2011.
(b) PPL Energy Supply's average short-term debt balance was $200 million lower and its average long-term debt balance was $252 million lower for the three months ended March 31, 2012, compared with the same period in 2011. The lower short-term debt balance was primarily due to the repayment of $700 million in bank loans in 2011 partially offset by a $500 million balance of commercial paper in 2012. The lower long-term debt balance was primarily due to the redemption of $250 million in Senior Unsecured Notes in July 2011.

Income Taxes

The increase (decrease) in income taxes was due to:

	Three Months Ended March 31, 2012 vs. March 31, 2011
Higher pre-tax book income	$ 52
State valuation allowance adjustments (a)	(6)
State deferred tax rate change (b)	(11)
Total	$ 35

(a) In February 2011 the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal tax purposes. Due to the decrease in projected taxable income related to bonus depreciation, PPL Energy Supply recorded a $6 million state deferred income tax expense during the three months ended March 31, 2011 related to valuation allowances.
(b) During the three months ended March 31, 2012, PPL recorded an $11 million adjustment related to state deferred tax liabilities.

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

Financial Condition

Liquidity and Capital Resources

PPL Energy Supply had the following at:

	March 31, 2012	December 31, 2011
Cash and cash equivalents	$ 135	$ 379
Short-term debt	$ 500	$ 400

The $244 million decrease in PPL Energy Supply's cash and cash equivalents position was primarily the net result of:

- distributions to Member of $557 million; and
- $199 million of capital expenditures; partially offset by
- $254 million of cash provided by operating activities;
- a net decrease of $198 million in notes receivable from affiliates; and
- a net increase in short-term debt of $100 million.

PPL Energy Supply's cash provided by operating activities increased by $52 million for the three months ended March 31, 2012, compared with the same period in 2011, primarily due to a $58 million decrease in defined benefit plan funding.

Credit Facilities

At March 31, 2012, PPL Energy Supply's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued and Commercial Paper Backstop	Unused Capacity
Syndicated Credit Facility	$ 3,000	$	$ 634	$ 2,366
Letter of Credit Facility	200	n/a	144	56
Total PPL Energy Supply Credit Facilities (a)	$ 3,200	$	$ 778	$ 2,422

(a) The commitments under PPL Energy Supply's credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 11% of the total committed capacity.

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

Long-term Debt

In April 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the Ironwood Acquisition. See Note 8 to the Financial Statements for information on the transaction and the debt of PPL Ironwood, LLC assumed through consolidation as part of the acquisition.

Commercial Paper

In April 2012, PPL Energy Supply increased the capacity of its commercial paper program from $500 million to $750 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At March 31, 2012, PPL Energy Supply had $500 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of approximately 0.47%.

Rating Agency Actions

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

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

As a result of the passage of the Dodd-Frank Act, PPL Energy Supply is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to PPL Energy Supply's ratings, but without stating what ratings have been assigned to PPL Energy Supply or its subsidiaries, or their securities. The ratings assigned by the rating agencies to PPL Energy Supply and its subsidiaries and their respective securities may be found, without charge, on each of the respective rating agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

The rating agencies took the following actions related to PPL Energy Supply and its subsidiaries.

In January 2012, S&P affirmed its rating and revised its outlook to stable from positive for PPL Montana's Pass Through Certificates due 2020.

Following the announcement of the then-pending acquisition of AES Ironwood, L.L.C. in February 2012, the rating agencies took the following actions:

In March 2012, Moody's placed AES Ironwood, L.L.C.'s senior secured bonds under review for possible ratings upgrade.

In April 2012, S&P affirmed the rating of AES Ironwood, L.L.C.'s senior secured bonds.

Ratings Triggers

PPL Energy Supply has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements and interest rate instruments, which contain provisions requiring PPL Energy Supply to post additional collateral, or permit the counterparty to terminate the contract, if PPL Energy Supply's credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at March 31, 2012. At March 31, 2012, if PPL Energy Supply's credit rating had been below investment grade, PPL Energy Supply would have been required to prepay or post an additional $425 million of collateral to counterparties for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations and interest rate contracts.

For additional information on PPL Energy Supply's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Energy Supply's 2011 Form 10-K.

Risk Management

Market Risk

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

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

Commodity Price Risk (Non-trading)

PPL Energy Supply segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL Energy Supply's generation assets, full-requirement sales contracts and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. The fair value of economic positions at March 31, 2012 and December 31, 2011 was a net asset of $816 million and a net liability of $63 million. The change in fair value is largely attributable to the dedesignation of cash flow hedges that are now classified as economic hedges. See Note 14 to the Financial Statements for additional information.

To hedge the impact of market price volatility on PPL Energy Supply's energy-related assets, liabilities and other contractual arrangements, PPL Energy Supply both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL Energy Supply's non-trading commodity derivative contracts mature at various times through 2019.

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

	Gains (Losses) Three Months Ended March 31, 2012	2011
Fair value of contracts outstanding at the beginning of the period	$ 1,082	$ 958
Contracts realized or otherwise settled during the period	(279)	(52)
Fair value of new contracts entered into during the period (a)	(1)	(17)
Other changes in fair value	413	109
Fair value of contracts outstanding at the end of the period	$ 1,215	$ 998

(a) Represents the fair value of contracts at the end of the quarter of their inception.

The following table segregates the net fair value of PPL Energy Supply's non-trading commodity derivative contracts at March 31, 2012, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

	Net Asset (Liability)				
Source of Fair Value	**Maturity Less Than 1 Year**	**Maturity 1-3 Years**	**Maturity 4-5 Years**	**Maturity in Excess of 5 Years**	**Total Fair Value**
Prices based on significant other observable inputs	$ 854	$ 349	$ (17)	$ 10	$ 1,196
Prices based on significant unobservable inputs	10	5	4		19
Fair value of contracts outstanding at the end of the period	$ 864	$ 354	$ (13)	$ 10	$ 1,215

PPL Energy Supply sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL Energy Supply were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties with which it has energy contracts and other factors could affect PPL Energy Supply's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL Energy Supply attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future. In connection with its bankruptcy proceedings, a significant counterparty, SMGT, had been purchasing lower volumes of electricity than prescribed in the contract and effective April 1, 2012 the contract was terminated. At this time, PPL Energy Supply cannot predict the prices or other terms on which it will be able to market to third parties the power that SMGT will not purchase from PPL EnergyPlus due to the termination of this contract. See Note 10 to the Financial Statements for additional information.

Commodity Price Risk (Trading)

PPL Energy Supply's trading commodity derivative contracts mature at various times through 2016. The following table sets forth changes in the net fair value of PPL Energy Supply's trading commodity derivative contracts. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)	
	Three Months Ended March 31,	
	2012	2011
Fair value of contracts outstanding at the beginning of the period	$ (4)	$ 4
Contracts realized or otherwise settled during the period		2
Fair value of new contracts entered into during the period (a)	6	3
Other changes in fair value		(2)
Fair value of contracts outstanding at the end of the period	$ 2	$ 7

(a) Represents the fair value of contracts at the end of the quarter of their inception.

Unrealized losses of approximately $5 million will be reversed over the next three months as the transactions are realized.

The following table segregates the net fair value of trading commodity derivative contracts at March 31, 2012, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

	Net Asset (Liability)				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Source of Fair Value					
Prices based on significant other observable inputs	$ (8)	$ 8	$ 2		$ 2
Fair value of contracts outstanding at the end of the period	$ (8)	$ 8	$ 2		$ 2

VaR Models

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

	Trading VaR		Non-Trading VaR	
	Three Months Ended March 31, 2012	Twelve Months Ended December 31, 2011	Three Months Ended March 31, 2012	Twelve Months Ended December 31, 2011
95% Confidence Level, Five-Day Holding Period				
Period End	$ 2	$ 1	$ 7	$ 6
Average for the Period	2	3	8	5
High	2	6	9	7
Low	1	1	7	4

The trading portfolio includes all speculative positions, regardless of the delivery period. All positions not considered speculative are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at March 31, 2012.

Interest Rate Risk

PPL Energy Supply and its subsidiaries have issued debt to finance their operations, which exposes them to interest rate risk. PPL and PPL Energy Supply utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in PPL Energy Supply's debt portfolio, adjust the duration of its debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of PPL Energy Supply's debt portfolio due to changes in the absolute level of interest rates. PPL Energy Supply had no interest rate hedges outstanding at March 31, 2012.

At March 31, 2012, PPL Energy Supply's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL Energy Supply is also exposed to changes in the fair value of its debt portfolio. PPL Energy Supply estimated that a 10% decrease in interest rates at March 31, 2012 would increase the fair value of its debt portfolio by $49 million.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the Susquehanna nuclear plant. At March 31, 2012, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on PPL Energy Supply's Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its NDT policy statement. At March 31, 2012, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated $48 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk

See Notes 11, 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL Energy Supply's 2011 Form 10-K for additional information.

Related Party Transactions

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

Acquisitions, Development and Divestitures

Development projects are continuously reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. See Note 8 to the Financial Statements for information on the more significant activities, including the April 2012 Ironwood Acquisition.

Environmental Matters

Protection of the environment is a priority for PPL Energy Supply and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to PPL Energy Supply's air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the cost of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc., and may impact the cost for their products or their demand for PPL Energy Supply's services. See "Item 1. Business - Environmental Matters" in PPL Energy Supply's 2011 Form 10-K and Note 10 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Notes 2 and 18 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: price risk management, defined benefits, asset impairment, loss accruals, AROs and income taxes. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Energy Supply's 2011 Form 10-K for a discussion of each critical accounting policy.

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

The following should be read in conjunction with PPL Electric's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL Electric's 2011 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of PPL Electric and its business strategy, a summary of Net Income Available to PPL Corporation and a discussion of certain events related to PPL Electric's results of operations and financial condition.

- "Results of Operations" provides a summary of PPL Electric's earnings and a description of factors expected to impact future earnings. This section ends with explanations of significant changes in principal items on PPL Electric's Statements of Income, comparing the three months ended March 31, 2012 with the same period in 2011.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL Electric's liquidity position and credit profile.

- "Financial Condition - Risk Management" provides an explanation of PPL Electric's risk management programs relating to market and credit risk.

Overview

Introduction

PPL Electric is an electricity delivery service provider in eastern and central Pennsylvania with headquarters in Allentown, Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

Business Strategy

PPL Electric's strategy and principal challenge is to own and operate its electricity delivery business at the most efficient cost while maintaining high quality customer service and reliability. PPL Electric anticipates that it will have significant capital expenditure requirements in the future. In order to manage financing costs and access to credit markets, a key objective for PPL Electric's business is to maintain a strong credit profile. PPL Electric continually focuses on maintaining an appropriate capital structure and liquidity position.

Timely recovery of costs to maintain and enhance the reliability of its delivery system including the replacement of aging distribution assets is required in order to maintain strong cash flows and a strong credit profile. Traditionally, such cost recovery would be pursued through periodic base rate case proceedings with the PUC. As such costs continue to increase, more frequent rate case proceedings may be required or an alternative rate-making process would need to be implemented in order to achieve more timely recovery. See "Regulatory Matters - Pennsylvania Activities - Legislation - Regulatory Procedures and Mechanisms" in Note 6 to the Financial Statements for information on Pennsylvania's new alternative rate-making mechanism.

Transmission costs are recovered through a FERC Formula Rate mechanism which is updated annually for costs incurred and assets placed in service. Accordingly, increased costs including the replacement of aging transmission assets and the PJM-approved Regional Transmission Line Expansion Plan are recovered on a timely basis.

Financial and Operational Developments

Net Income Available to PPL Corporation

	Three Months Ended March 31,		
	2012	2011	% Change
Net Income Available to PPL Corporation	$ 33	$ 52	(37)

See "Results of Operations" for a discussion and analysis of PPL Electric's earnings.

Redemption of Preference Stock

In April 2012, PPL Electric gave notice that it had elected to redeem all 2.5 million shares of its 6.25% Series Preference Stock, par value $100 per share, on June 18, 2012. The price to be paid for the redemption is the par value, without premium ($250 million in the aggregate). The Preference Stock is reflected on PPL Electric's Balance Sheets in "Preferred securities."

Regional Transmission Line Expansion Plan

PPL Electric has experienced delays in obtaining necessary National Park Service (NPS) approvals for the Susquehanna-Roseland transmission line and anticipates a delay of the line's in-service date to 2015. In March 2012, the NPS announced that the route proposed by PPL Electric and PSE&G, previously approved by the Pennsylvania and New Jersey public utility commissions, is the preferred route for the line under the NPS's National Environmental Policy Act review. The NPS has stated that it expects to issue its record of decision in October 2012. An appeal of the New Jersey Board of Public Utilities approval of the line is pending before the New Jersey Superior Court Appellate Division. PPL Electric cannot predict the ultimate outcome or timing of the NPS approval or any further legal challenges to the project. PJM has developed a strategy to manage potential reliability problems until the line is built. PPL Electric cannot predict what additional actions, if any, PJM might take in the event of a further delay to its scheduled in-service date for the new line. See Note 8 in PPL Electric's 2011 Form 10-K for additional information.

Results of Operations

The following discussion provides a summary of PPL Electric's earnings and a description of factors that management expects may impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on PPL Electric's Statements of Income, comparing the three months ended March 31, 2012 with the same period in 2011.

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

Earnings

	Three Months Ended March 31,	
	2012	2011
Net Income Available to PPL Corporation	$ 33	$ 52

The changes in the components of Net Income Available to PPL Corporation between these periods were due to the following factors.

Pennsylvania gross delivery margins	$ (13)
Other operation and maintenance	(6)
Depreciation	(6)
Other	3
Income Taxes	3
Total	$ (19)

- See "Statement of Income Analysis - Pennsylvania Gross Delivery Margins - Changes in Non-GAAP Financial Measures" for an explanation of Pennsylvania Gross Delivery Margins.

- Higher other operation and maintenance expense due to $3 million of higher payroll related costs, $3 million of higher support group costs and $2 million of higher vegetation management costs, partially offset by $5 million of lower PUC reportable storm costs.

- Higher depreciation expense due to a $5 million depreciation impact from PP&E additions, primarily related to the ongoing efforts to maintain and enhance the reliability of the delivery system, including the replacement of aging infrastructure.

- Lower income taxes primarily due to lower pre-tax income, which reduced income taxes by $9 million, partially offset by $4 million of benefits recorded in 2011 related to Pennsylvania Department of Revenue interpretive guidance on bonus depreciation.

Outlook

Excluding special items, PPL Electric projects lower earnings in 2012 compared with 2011, primarily driven by higher operation and maintenance expense, higher depreciation and lower distribution revenue, which are expected to be partially offset by higher transmission revenue and lower financing costs.

In March 2012, PPL Electric filed a request with the PUC to increase distribution rates by approximately $105 million. The PUC's review of the distribution rate increase is expected to take about nine months. The proposed distribution revenue rate increase would result in a 2.9% increase over PPL Electric's present rates and would be effective January 1, 2013. PPL Electric cannot predict the outcome of this proceeding.

Earnings in 2012 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2 and Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in PPL Electric's 2011 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Pennsylvania Gross Delivery Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Pennsylvania Gross Delivery Margins." "Pennsylvania Gross Delivery Margins" is a single financial performance measure of PPL Electric's Pennsylvania regulated electric delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Energy purchases from affiliate," "Other operation and maintenance" expense, which is primarily Act 129 costs, and "Taxes, other than income," which is primarily gross receipts tax. As a result, this measure represents the net revenues from PPL Electric's Pennsylvania regulated electric delivery operations. This measure is not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL Electric believes that "Pennsylvania Gross Delivery Margins" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management and PPL's Board of Directors to manage PPL Electric's operations and analyze actual results to budget.

Reconciliation of Non-GAAP Financial Measures

The following table reconciles "Operating Income" to "Pennsylvania Gross Delivery Margins" as defined by PPL Electric for the three months ended March 31.

	2012			2011		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues						
Retail electric	$ 457		$ 457	$ 554		$ 554
Electric revenue from affiliate	1		1	4		4
Total Operating Revenues	458		458	558		558
Operating Expenses						
Energy purchases	153		153	251		251
Energy purchases from affiliate	21		21	6		6
Other operation and maintenance	22	$ 118	140	18	$ 112	130
Depreciation		39	39		33	33
Taxes, other than income	25	1	26	33	2	35
Total Operating Expenses	221	158	379	308	147	455
Total	$ 237	$ (158)	$ 79	$ 250	$ (147)	$ 103

(a) Represents amounts that are excluded from Margins.
(b) As reported on the Statement of Income.

Changes in Non-GAAP Financial Measures

The following table shows PPL Electric's non-GAAP financial measure, "Pennsylvania Gross Delivery Margins" for the periods ended March 31, as well as the change between periods. The factors that gave rise to the change are described below the table.

	Three Months		
	2012	2011	Change
PA Gross Delivery Margins by Component			
Distribution	$ 189	$ 208	$ (19)
Transmission	48	42	6
Total	$ 237	$ 250	$ (13)

Distribution

Margins decreased as weather had an unfavorable impact of $16 million on base distribution revenues.

Transmission

Margins increased primarily due to increased investment in plant and the recovery of additional costs through the FERC formula-based rates.

Other Operation and Maintenance

The increase/(decrease) in other operation and maintenance expense was due to:

	Three Months Ended March 31, 2012 vs. March 31, 2011
Payroll-related costs	$ 3
Vegetation management	2
Uncollectible accounts	2
Allocation of certain corporate support group costs	3
PUC-reportable storm costs, net of insurance recovery	(5)
Other	5
Total	$ 10

Depreciation

Depreciation increased by $6 million for the three months ended March 31, 2012 compared with the same period in 2011, primarily due to PP&E additions related to PPL Electric's ongoing efforts to ensure the reliability of its delivery system and replace aging infrastructure .

Taxes, Other Than Income

Taxes, other than income decreased by $9 million during the three months ended March 31, 2012 compared with the same period in 2011, primarily due to a decrease in gross receipts tax from a decline in taxable electric revenues. This tax is included in "Pennsylvania Gross Delivery Margins."

Income Taxes

The increase (decrease) in income taxes was due to:

	Three Months Ended March 31, 2012 vs. March 31, 2011
Lower pre-tax book income	$ (9)
Federal and state tax reserve adjustments	1
Federal and state tax return adjustments (a)	2
Depreciation not normalized (a)	2
Other	1
Total	$ (3)

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal tax purposes. The 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation. The federal provision for 100% bonus depreciation generally applies to property placed in service before January 1, 2012.

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

Financial Condition

Liquidity and Capital Resources

PPL Electric had the following at:

	March 31, 2012	December 31, 2011
Cash and cash equivalents	$ 149	$ 320

The $171 million decrease in PPL Electric's cash and cash equivalents position was primarily the net result of:

- $121 million of capital expenditures; and
- the payment of $35 million of common stock dividends to PPL.

PPL Electric's cash used in operating activities improved by $37 million for the three months ended March 31, 2012, compared with the same period in 2011, primarily due to a $44 million decrease in defined benefit plan funding.

Credit Facilities

At March 31, 2012, PPL Electric's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
Syndicated Credit Facility (a)	$ 200		$ 1	$ 199
Asset-backed Credit Facility (b)	150		n/a	150
Total PPL Electric Credit Facilities	$ 350		$ 1	$ 349

(a) In April 2012, PPL Electric increased the capacity of its syndicated credit facility to $300 million.

The commitments under this credit facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 6% of the total committed capacity.

(b) PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary pledges these assets to secure loans of up to an aggregate of $150 million from a commercial paper conduit sponsored by a financial institution. At March 31, 2012, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under this facility was limited to $82 million.

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

Commercial Paper

PPL Electric maintains a commercial paper program for up to $200 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility. PPL Electric had no commercial paper outstanding at March 31, 2012.

Equity Securities

In April 2012, PPL Electric gave notice that it had elected to redeem all 2.5 million shares of its 6.25% Series Preference Stock, par value $100 per share, on June 18, 2012. The price to be paid for the redemption is the par value, without premium ($250 million in the aggregate). The Preference Stock is reflected on PPL Electric's Balance Sheets in "Preferred securities" at March 31, 2012 and December 31, 2011.

Rating Agency Actions

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

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

As a result of the passage of the Dodd-Frank Act, PPL Electric is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to PPL Electric's ratings, but without stating what ratings have been assigned to PPL Electric or its securities. The ratings assigned by the rating agencies to PPL Electric and its respective securities may be found, without charge, on each of the respective rating agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

The rating agencies did not take any actions related to PPL Electric in 2012.

For additional information on PPL Electric's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Electric's 2011 Form 10-K.

Risk Management

Market Risk and Credit Risk

PPL Electric has issued debt to finance its operations, which exposes it to interest rate risk. PPL Electric had no potential annual exposure to increased interest expense, based on a 10% increase in interest rates, at March 31, 2012. PPL Electric estimated that a 10% decrease in interest rates at March 31, 2012 would increase the fair value of its debt portfolio by $93 million.

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management" in PPL Electric's 2011 Form 10-K for additional information on market and credit risk.

Related Party Transactions

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

Environmental Matters

Protection of the environment is a priority for PPL Electric and a significant element of its business activities. See "Item 1. Business - Environmental Matters" in PPL Electric's 2011 Form 10-K and Note 10 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Notes 2 and 18 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: defined benefits, loss accruals, income taxes, regulatory assets and liabilities and revenue recognition - unbilled revenue. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Electric's 2011 Form 10-K for a discussion of each critical accounting policy.

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

The following should be read in conjunction with LKE's Condensed Consolidated Financial Statements and the accompanying Notes and with LKE's 2011 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of LKE and its business strategy, a summary of Net Income and a discussion of certain events related to LKE's results of operations and financial condition.
- "Results of Operations" provides a summary of LKE's earnings and a description of factors expected to impact future earnings. This section ends with explanations of significant changes in principal items on LKE's Statements of Income, comparing the three months ended March 31, 2012 with the same period in 2011.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of LKE's liquidity position and credit profile.
- "Financial Condition - Risk Management" provides an explanation of LKE's risk management programs relating to market and credit risk.

Overview

Introduction

LKE, headquartered in Louisville, Kentucky, is a holding company with utility operations through its subsidiaries, LG&E and KU. LG&E and KU, which constitute substantially all of LKE's operations, are regulated utilities engaged in the generation, transmission, distribution and sale of electricity, in Kentucky, Virginia and Tennessee. LG&E also engages in the distribution and sale of natural gas in Kentucky.

Business Strategy

LKE's overall strategy is to provide reliable, safe and competitively priced energy to its customers.

A key objective for LKE is to maintain a strong credit profile through managing financing costs and access to credit markets. LKE continually focuses on maintaining an appropriate capital structure and liquidity position.

Financial and Operational Developments

Net Income

	Three Months Ended March 31,		
	2012	2011	% Change
Net Income	$ 53	$ 87	(39)

See "Results of Operations" for a discussion and analysis of LKE's earnings.

Registered Debt Exchange Offer by LKE

In April 2012, LKE filed a Form S-4 Registration Statement with the SEC, as required by a registration rights agreement entered into in connection with the issuance of senior notes in September 2011 in a transaction not registered under the Securities Act of 1933. The Form S-4 relates to an offer to exchange the senior notes issued in September 2011 for similar but registered securities. See Note 7 to the Financial Statements for additional information.

Commercial Paper

In February 2012, LG&E and KU each established a commercial paper program for up to $250 million to provide an additional financing source to fund their short-term liquidity needs. Commercial paper issuances will be supported by LG&E's and KU's Syndicated Credit Facilities. LG&E and KU had no commercial paper outstanding at March 31, 2012. See Note 7 to the Financial Statements for additional information.

Pending Bluegrass CTs Acquisition and NGCC Construction

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run plant site. In conjunction with this request and to meet new, stricter EPA regulations, LG&E and KU anticipate retiring six older coal-fired electric generating units. These units are located at the Cane Run, Green River and Tyrone plants, which have a combined summer rating of 797 MW. LG&E and KU also requested approval to purchase the Bluegrass CTs, which are expected to provide up to 495 MW of peak generation supply. In November 2011, LG&E and KU filed an application with the FERC under the Federal Power Act requesting approval to purchase the Bluegrass CTs.

LG&E and KU anticipate that the NGCC construction and the acquisition of the Bluegrass CTs could require up to $800 million (comprised of up to $300 million for LG&E and up to $500 million for KU) in capital costs including related transmission projects. Formal requests for recovery of the costs associated with the NGCC construction and the acquisition of the Bluegrass CTs were not included in the CPCN filing with the KPSC but are expected to be included in future rate proceedings. In May 2012, the KPSC issued an order approving the request to build the NGCC and purchase the Bluegrass CTs. Also, on May 4, 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to implementation of satisfactory mitigation measures to address market-power concerns. FERC approval of the proposed mitigation measures is required. LG&E and KU are reviewing the order's conditions and their impact on the closing conditions under the Bluegrass CTs purchase contract, as well as other regulatory, operational and economic aspects of the transaction. See Notes 6 and 8 to the Financial Statements for additional information.

Results of Operations

The following discussion provides a summary of LKE's earnings and a description of factors that management expects may impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on LKE's Statements of Income, comparing the three months ended March 31, 2012 with the same period in 2011.

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

Earnings

	Three Months Ended March 31,	
	2012	2011
Net Income	$ 53	$ 87

The changes in the components of Net Income between these periods were due to the following factors, which are adjusted for certain items that management considers special. See additional detail of these special items in the table below.

Margin	$ (28)
Other operation and maintenance	(22)
Depreciation	(4)
Taxes, other than income	(2)
Other Income (Expense) - net	(2)
Interest Expense	(2)
Income Taxes	22
Special Items, after-tax	4
Total	$ (34)

- See "Statement of Income Analysis - Margin - Changes in Non-GAAP Financial Measures" for an explanation of margin.

- Higher other operation and maintenance expense due to $11 million of higher steam maintenance costs primarily resulting from an increased scope of scheduled plant outages, a $6 million credit to establish a regulatory asset recorded in the first quarter of 2011 related to 2009 storm costs and $3 million of higher storm restoration and vegetation management costs.

- Lower income taxes primarily due to the change in pre-tax income.

The following after-tax amounts, which management considers special items, also impacted earnings:

	Income Statement Line Item	Three Months Ended March 31, 2012	2011
Special items gains (losses), net of tax (expense) benefit:			
Acquisition-related adjustments:			
Net operating loss carryforward and other tax related adjustments	Income Taxes and Other O&M	$ 4	
Total		$ 4	

Outlook

Excluding special items, LKE projects lower earnings in 2012 compared with 2011, as margin increases are not expected to offset operating expense increases, including depreciation. Actual results will be dependent on the effects of the economy and the impact of weather on retail sales among other variables. As a result of the stay out provision established in the settlement of the PPL-LKE acquisition, LKE is generally unable to implement an increase in base rates for its two regulated utilities in Kentucky before January 1, 2013.

Earnings in 2012 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in LKE's 2011 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margin

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margin." Margin is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margin is a single financial performance measure of LKE's operations. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expenses and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. As a result, this measure represents the net revenues from LKE's operations. This performance measure is used, in conjunction with other information, internally by senior management to manage LKE's operations and analyze actual results compared to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margin" as defined by LKE for the three months ended March 31.

	2012			2011		
	Margin	**Other (a)**	**Operating Income (b)**	**Margin**	**Other (a)**	**Operating Income (b)**
Operating Revenues	$ 705		$ 705	$ 766		$ 766
Operating Expenses						
Fuel	213		213	215		215
Energy purchases	74		74	107		107
Other operation and maintenance	22	$ 184	206	21	$ 160	181
Depreciation	13	73	86	12	69	81
Taxes, other than income		11	11		9	9
Total Operating Expenses	322	268	590	355	238	593
Total	$ 383	$ (268)	$ 115	$ 411	$ (238)	$ 173

(a) Represents amounts excluded from Margin.
(b) As reported on the Statement of Income.

Changes in Non-GAAP Financial Measures

Margins decreased by $28 million during the three months ended March 31, 2012, compared with the same period in 2011. The negative impact mainly resulted from $23 million of lower retail electric margins as volumes were impacted by unseasonably mild weather in the first quarter of 2012. The total heating degree days decreased by 26% compared to the same period in 2011.

The $61 million decrease in revenues resulted from a negative volume variance, largely due to a decrease in retail sales volumes of $61 million and a decrease in off-system sales volumes to third-parties of $14 million. This decrease was offset by a positive fuel price variance of $14 million, due to increased recoverable fuel expenses.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense was due to:

	Three Months Ended March 31, 2012 vs. March 31, 2011
Steam maintenance (a)	$ 11
Distribution maintenance (b)	8
Other	6
Total	$ 25

(a) Steam maintenance costs increased $11 million, primarily resulting from an increased scope of scheduled outages.
(b) A $6 million credit to establish a regulatory asset was recorded in the first quarter of 2011 related to 2009 storm costs. Storm restoration and vegetation management costs increased $3 million.

Depreciation

Depreciation increased by $5 million for the three months ended March 31, 2012 compared with the same period in 2011, primarily due to PP&E additions.

Income Taxes

The increase (decrease) in income taxes was due to:

	Three Months Ended March 31, 2012 vs. March 31, 2011
Lower pre-tax book income	$ (24)
Net operating loss carryforward adjustment (a)	(6)
Other	2
Total	$ (28)

(a) In the first quarter of 2012, LKE recorded a prior period adjustment to deferred taxes related to net operating losses.

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

Financial Condition

Liquidity and Capital Resources

LKE had the following at:

	March 31, 2012	December 31, 2011
Cash and cash equivalents	$ 104	$ 59

The $45 million increase in LKE's cash and cash equivalents position was primarily the net result of:

- cash provided by operating activities of $232 million, partially offset by
- capital expenditures of $174 million and
- the payment of $25 million of distributions to PPL.

LKE's cash provided by operating activities increased by $39 million for the three months ended March 31, 2012, compared with the same period in 2011, primarily due to:

- a decrease in cash outflows of $95 million due to a reduction in discretionary defined benefit plan contributions;
- a net decrease in accounts receivable and accounts payable of $25 million due to an increase in the customer receivable balance in 2012 resulting from increased revenues in 2012 following unseasonably mild weather in December 2011 and the timing of cash receipts and payments, including a decrease of $11 million due to lower revenues and corresponding natural gas purchases and a decrease of $8 million in natural gas purchases for electric generation due to a $12 million volume variance, partially offset by a $4 million decrease in price;
- an increase in cash inflows related to income tax receivable of $17 million primarily due to LKE recording a $52 million receivable for a capital loss carryover in 2011, partially offset by a payment of $40 million received in 2011; and
- a decrease in cash outflows related to accrued taxes of $17 million primarily due to the timing of property tax payments; partially offset by
- a decrease in net income adjusted for non-cash effects of $110 million (deferred income taxes and investment tax credits of $88 million, net income of $34 million and defined benefit plans - expense of $2 million, partially offset by depreciation of $5 million and other noncash items of $9 million) and
- an increase in cash outflows related to inventory of $14 million, which was primarily driven by a $7 million lesser decline in gas storage volumes in 2012 as compared with 2011 and a $4 million increase in coal inventory in 2012 as compared with a $5 million decrease in 2011 resulting from lower coal-fired generation, which was a result of the mild winter weather.

Credit Facilities

At March 31, 2012, LKE's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
LKE Credit Facility with a subsidiary of PPL Energy Supply	$ 300			$ 300
LG&E Syndicated Credit Facility	400			400
KU Credit Facilities	598		$ 198	400
Total Credit Facilities (a)	$ 1,298		$ 198	$ 1,100

(a) The commitments under LKE's domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 10% of the total committed capacity; however, the PPL affiliate provides a commitment of approximately 23% of the total facilities listed above.

See Note 7 to the Financial Statements for further discussion of LKE's credit facilities and long-term debt securities.

Rating Agency Actions

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

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

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

The rating agencies took the following actions related to LKE and its subsidiaries:

In February 2012, Fitch assigned ratings to the two newly established commercial paper programs for LG&E and KU.

In March 2012, Moody's affirmed the following ratings:

- the long-term ratings of the First Mortgage Bonds for LG&E and KU;
- the issuer ratings for LG&E and KU; and
- the bank loan ratings for LG&E and KU.

Also in March 2012, Moody's and S&P each assigned short-term ratings to the two newly established commercial paper programs for LG&E and KU.

Ratings Triggers

LKE and its subsidiaries have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, commodity transportation and storage and interest rate instruments, which contain provisions requiring LKE and its subsidiaries to post additional collateral, or permitting the counterparty to terminate the contract, if LKE's or its subsidiaries' credit ratings were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at March 31, 2012. At March 31, 2012, if LKE's or its subsidiaries' credit ratings had been below investment grade, the maximum amount that LKE would have been required to post as additional collateral to counterparties was $95 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation and marketing operations, gas supply and interest rate contracts.

Risk Management

Market Risk

LKE is exposed to market risk from equity instruments, interest rate instruments and commodity instruments, as discussed below. However, regulatory cost recovery mechanisms significantly mitigate those risks. See Notes 13 and 14 to the Financial Statements for information about LKE's risk management objectives, valuation techniques and accounting designations.

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

Commodity Price Risk

LG&E's and KU's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E and KU are subject to commodity price risk for only a small portion of on-going business operations. LKE conducts energy trading and risk management activities to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. See Note 14 to the Financial Statements for additional disclosures.

Interest Rate Risk

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

At March 31, 2012, LKE's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

LKE is also exposed to changes in the fair value of its debt portfolio. LKE estimated that a 10% decrease in interest rates at March 31, 2012, would increase the fair value of its debt portfolio by $122 million.

At March 31, 2012, LKE had the following interest rate hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates
Economic hedges			
Interest rate swaps (b)	$ 179	$ (54)	$ (4)

(a) Includes accrued interest.
(b) LKE utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While LKE is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at March 31, 2012 mature through 2033.

Credit Risk

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL's and LKE's 2011 Form 10-K for additional information.

Related Party Transactions

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

Acquisitions, Development and Divestitures

Development projects are continuously reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. See Note 8 to the Financial Statements for additional information on the more significant activities.

Environmental Matters

Protection of the environment is a major priority for LKE and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to LKE's air emissions, water discharges and the management of hazardous and solid waste, among other areas, and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures; or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc. and may impact the costs for their products or their demand for LKE's services. See "Item 1. Business - Environmental Matters" in LKE's 2011 Form 10-K and Note 10 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Notes 2 and 18 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations and require estimates or other judgments of matters inherently uncertain: revenue recognition - unbilled revenue, price risk management, defined benefits, asset impairment, loss accruals, AROs, income taxes and regulatory assets and liabilities. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in LKE's 2011 Form 10-K for a discussion of each critical accounting policy.

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

The following should be read in conjunction with LG&E's Condensed Financial Statements and the accompanying Notes and with LG&E's 2011 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of LG&E and its business strategy, a summary of Net Income and a discussion of certain events related to LG&E's results of operations and financial condition.

- "Results of Operations" provides a summary of LG&E's earnings and a description of factors expected to impact future earnings. This section ends with explanations of significant changes in principal items on LG&E's Statements of Income, comparing the three months ended March 31, 2012 with the same period in 2011.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of LG&E's liquidity position and credit profile.

- "Financial Condition - Risk Management" provides an explanation of LG&E's risk management programs relating to market and credit risk.

Overview

Introduction

LG&E, headquartered in Louisville, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky.

Business Strategy

LG&E's overall strategy is to provide reliable, safe and competitively priced energy to its customers.

A key objective for LG&E is to maintain a strong credit profile through managing financing costs and access to credit markets. LG&E continually focuses on maintaining an appropriate capital structure and liquidity position.

Financial and Operational Developments

Net Income

	Three Months Ended March 31,		
	2012	2011	% Change
Net Income	$ 25	$ 39	(36)

See "Results of Operations" for a discussion and analysis of LG&E's earnings.

Commercial Paper

In February 2012, LG&E established a commercial paper program for up to $250 million to provide an additional financing source to fund its short-term liquidity needs. Commercial paper issuances will be supported by LG&E's Syndicated Credit Facilities. LG&E had no commercial paper outstanding at March 31, 2012. See Note 7 to the Financial Statements for additional information.

Pending Bluegrass CTs Acquisition and NGCC Construction

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run plant site. In conjunction with this request and to meet new, stricter EPA regulations, LG&E anticipates retiring three older coal-fired electric generating units, located at the Cane Run plant, which have a combined summer rating of 563 MW. LG&E and KU also requested approval to purchase the Bluegrass CTs, which are expected to provide up to 495 MW of peak generation supply. In November 2011, LG&E and KU filed an application with the FERC under the Federal Power Act requesting approval to purchase the Bluegrass CTs.

LG&E anticipates that its share of the NGCC construction and the acquisition of the Bluegrass CTs could require up to $300 million in capital costs including related transmission projects. Formal requests for recovery of the costs associated with the NGCC construction and the acquisition of the Bluegrass CTs were not included in the CPCN filing with the KPSC but are expected to be included in future rate proceedings. In May 2012, the KPSC issued an order approving the request to build the NGCC and purchase the Bluegrass CTs. Also, on May 4, 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to implementation of satisfactory mitigation measures to address market-power concerns. FERC approval of the proposed mitigation measures is required. LG&E is reviewing the order's conditions and their impact on the closing conditions under the Bluegrass CTs purchase contract, as well as other regulatory, operational and economic aspects of the transaction. See Notes 6 and 8 to the Financial Statements for additional information.

Results of Operations

The following discussion provides a summary of LG&E's earnings and a description of factors that management expects may impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on LG&E's Statements of Income, comparing the three months ended March 31, 2012 with the same period in 2011.

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

Earnings

	Three Months Ended March 31,	
	2012	2011
Net Income	$ 25	$ 39

The changes in the components of Net Income between these periods were due to the following factors.

Margin	$ (12)
Other operation and maintenance	(8)
Depreciation	(2)
Taxes, other than income	(1)
Other Income (Expense) - net	2
Income Taxes	7
Total	$ (14)

- See "Statement of Income Analysis - Margin - Changes in Non-GAAP Financial Measures" for an explanation of margin.
- Higher other operation and maintenance due to $8 million of higher steam maintenance costs primarily resulting from an increased scope of scheduled plant outages.
- Lower income taxes primarily due to the change in pre-tax income.

Outlook

LG&E projects lower earnings in 2012 compared with 2011, as margin increases are not expected to offset operating expense increases, including depreciation. Actual results will be dependent on the effects of the economy and the impact of weather on retail sales among other variables. As a result of the stay out provision established in the settlement of the PPL-LKE acquisition, LG&E is generally unable to implement an increase in base rates before January 1, 2013.

Earnings in 2012 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in LG&E's 2011 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margin

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margin." Margin is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margin is a single financial performance measure of LG&E's operations. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expenses and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. As a result, this measure represents the net revenues from LG&E's operations. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margin" as defined by LG&E for the three months ended March 31.

	2012			2011		
	Margin	Other (a)	Operating Income (b)	Margin	Other (a)	Operating Income (b)
Operating Revenues	$ 353		$ 353	$ 398		$ 398
Operating Expenses						
Fuel	89		89	85		85
Energy purchases	73		73	110		110
Other operation and maintenance	10	$ 88	98	10	$ 80	90
Depreciation	1	37	38	1	35	36
Taxes, other than income		5	5		4	4
Total Operating Expenses	173	130	303	206	119	325
Total	$ 180	$ (130)	$ 50	$ 192	$ (119)	$ 73

(a) Represents amounts excluded from Margin.
(b) As reported on the Statement of Income.

Changes in Non-GAAP Financial Measures

Margins decreased by $12 million during the three months ended March 31, 2012, compared with the same period in 2011. The negative impact mainly resulted from $6 million of lower retail electric margins as volumes were impacted by unseasonably mild weather in the first quarter of 2012. The total heating degree days decreased by 28% compared to the same period in 2011.

The $45 million decrease in revenues resulted from a negative volume variance, largely due to a decrease in retail sales volumes of $40 million and a decrease in off-system sales volumes to third-parties of $13 million. This decrease was partially offset by a positive fuel price variance of $12 million, due to increased recoverable fuel expenses.

Other Operation and Maintenance

Other operation and maintenance increased by $8 million for the three months ended March 31, 2012 compared with the same period in 2011, due to higher steam maintenance costs of $8 million, primarily resulting from an increased scope of scheduled outages.

Income Taxes

The increase (decrease) in income taxes was due to:

	Three Months Ended March 31, 2012 vs. March 31, 2011
Lower pre-tax book income	$ (8)
Other	1
Total	$ (7)

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

Financial Condition

Liquidity and Capital Resources

LG&E had the following at:

	March 31, 2012	December 31, 2011
Cash and cash equivalents	$ 54	$ 25

The $29 million increase in LG&E's cash and cash equivalents position was primarily the net result of:

- cash provided by operating activities of $102 million;
- capital expenditures of $60 million; and
- the payment of $15 million of common stock dividends.

LG&E's cash provided by operating activities increased by $11 million for the three months ended March 31, 2012, compared with the same period in 2011, primarily due to:

- a decrease in cash outflows of $41 million due to a reduction in discretionary defined benefit plan contributions and
- a net decrease in accounts receivable and accounts payable of $9 million due to the timing of cash receipts and payments, including a decrease of $11 million due to lower revenues and corresponding natural gas purchases and a decrease of $8 million in natural gas purchases for electric generation due to a $12 million volume variance, partially offset by a $4 million decrease in price, partially offset by
- an increase in cash outflows related to inventory of $21 million, which was primarily driven by a $7 million lesser decline in gas storage volumes in 2012 as compared with 2011 and a $14 million increase in coal inventory in 2012 as compared with a $1 million decrease in 2011 resulting from lower coal-fired generation, which was a result of the mild winter weather and
- a decrease in net income adjusted for non-cash effects of $10 million (net income of $14 million and defined benefit plans - expense of $1 million, partially offset by deferred income taxes and investment tax credits of $3 million and depreciation of $2 million).

Credit Facilities

At March 31, 2012, LG&E's committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
Syndicated Credit Facility (a)	$ 400			$ 400

(a) The commitments under LG&E's Syndicated Credit Facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 6% of the total committed capacity available to LG&E.

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to $500 million at an interest rate based on a market index of commercial paper issues. At March 31, 2012 and December 31, 2011, there was no balance outstanding.

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

Rating Agency Actions

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

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

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

The rating agencies took the following actions related to LG&E:

In February 2012, Fitch assigned ratings to LG&E's newly established commercial paper program.

In March 2012, Moody's affirmed the following ratings:
- the long-term ratings of the First Mortgage Bonds for LG&E;
- the issuer ratings for LG&E; and
- the bank loan ratings for LG&E.

Also in March 2012, Moody's and S&P each assigned short-term ratings to LG&E's newly established commercial paper programs.

Ratings Triggers

LG&E has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, commodity transportation and storage and interest rate instruments, which contain provisions requiring LG&E to post additional collateral, or permitting the counterparty to terminate the contract, if LG&E's credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at March 31, 2012. At March 31, 2012, if LG&E's credit ratings had been below investment grade, the maximum amount that LG&E would have been required to post as additional collateral to counterparties was $66 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation and marketing operations, gas supply and interest rate contracts.

Risk Management

Market Risk

LG&E is exposed to market risk from equity instruments, interest rate instruments and commodity instruments, as discussed below. However, regulatory cost recovery mechanisms significantly mitigate those risks. See Notes 13 and 14 to the Financial Statements for information about LG&E's risk management objectives, valuation techniques and accounting designations.

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

Commodity Price Risk

LG&E's rates are set by a regulatory commission and the fuel costs incurred are directly recoverable from customers. As a result, LG&E is subject to commodity price risk for only a small portion of on-going business operations. LG&E conducts energy trading and risk management activities to maximize the value of the physical assets at times when the assets are not required to serve LG&E's or KU's customers. See Note 14 to the Financial Statements for additional disclosures.

Interest Rate Risk

LG&E has issued debt to finance its operations, which exposes it to interest rate risk. LG&E utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under LG&E's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of LG&E's debt portfolio due to changes in the absolute level of interest rates.

At March 31, 2012, LG&E's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

LG&E is also exposed to changes in the fair value of its debt portfolio. LG&E estimated that a 10% decrease in interest rates at March 31, 2012, would increase the fair value of its debt portfolio by $27 million.

At March 31, 2012, LG&E had the following interest rate hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates
Economic hedges			
Interest rate swaps (b)	$ 179	$ (54)	$ (4)

(a) Includes accrued interest.
(b) LG&E utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While LG&E is exposed to changes in the fair value of these instruments, any realized changes in the fair value of such economic hedges are recoverable through regulated rates and any subsequent changes in fair value of these derivatives are included in regulatory assets and liabilities. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at March 31, 2012 mature through 2033.

Credit Risk

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL's and LG&E's 2011 Form 10-K for additional information.

Related Party Transactions

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

Acquisitions, Development and Divestitures

Development projects are continuously reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. See Note 8 to the Financial Statements for additional information on the more significant activities.

Environmental Matters

Protection of the environment is a major priority for LG&E and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to LG&E's air emissions, water discharges and the management of hazardous and solid waste, among other areas, and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures; or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc. and may impact the costs for their products or their demand for LG&E's services. See "Item 1. Business - Environmental Matters" in LG&E's 2011 Form 10-K and Note 10 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Notes 2 and 18 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations and require estimates or other judgments of matters inherently uncertain: revenue recognition - unbilled revenue, price risk management, defined benefits, asset impairment, loss accruals, AROs, income taxes, and regulatory assets and liabilities. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in LG&E's 2011 Form 10-K for a discussion of each critical accounting policy.

KENTUCKY UTILITIES COMPANY

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

The following should be read in conjunction with KU's Condensed Financial Statements and the accompanying Notes and with KU's 2011 Form 10-K. Capitalized terms and abbreviations are defined in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides a description of KU and its business strategy, a summary of Net Income and a discussion of certain events related to KU's results of operations and financial condition.
- "Results of Operations" provides a summary of KU's earnings and a description of factors expected to impact future earnings. This section ends with explanations of significant changes in principal items on KU's Statements of Income, comparing the three months ended March 31, 2012 with the same period in 2011.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of KU's liquidity position and credit profile.
- "Financial Condition - Risk Management" provides an explanation of KU's risk management programs relating to market and credit risk.

Overview

Introduction

KU, headquartered in Lexington, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electricity, in Kentucky, Virginia and Tennessee.

Business Strategy

KU's overall strategy is to provide reliable, safe and competitively priced energy to its customers.

A key objective for KU is to maintain a strong credit profile through managing financing costs and access to credit markets. KU continually focuses on maintaining an appropriate capital structure and liquidity position.

Financial and Operational Developments

Net Income

	Three Months Ended March 31,		
	2012	2011	% Change
Net Income	$ 38	$ 58	(34)

See "Results of Operations" for a discussion and analysis of KU's earnings.

Commercial Paper

In February 2012, KU established a commercial paper program for up to $250 million to provide an additional financing source to fund its short-term liquidity needs. Commercial paper issuances will be supported by KU's Syndicated Credit Facilities. KU had no commercial paper outstanding at March 31, 2012. See Note 7 to the Financial Statements for additional information.

Pending Bluegrass CTs Acquisition and NGCC Construction

In September 2011, KU and LG&E filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run plant site. In conjunction with this request and to meet new, stricter EPA regulations, KU anticipates retiring three older coal-fired electric generating units. These units are located at the Green River and Tyrone plants, which have a combined summer rating of 234 MW. KU and LG&E also requested approval to purchase the Bluegrass CTs, which are expected to provide up to 495 MW of peak generation supply. In November 2011, LG&E and KU filed an application with the FERC under the Federal Power Act requesting approval to purchase the Bluegrass CTs.

KU anticipates that its share of the NGCC construction and the acquisition of the Bluegrass CTs could require up to $500 million in capital costs including related transmission projects. Formal requests for recovery of the costs associated with the NGCC construction and the acquisition of the Bluegrass CTs were not included in the CPCN filing with the KPSC but are expected to be included in future rate proceedings. In May 2012, the KPSC issued an order approving the request to build the NGCC and purchase the Bluegrass CTs. Also, on May 4, 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to implementation of satisfactory mitigation measures to address market-power concerns. FERC approval of the proposed mitigation measures is required. KU is reviewing the order's conditions and their impact on the closing conditions under the Bluegrass CTs purchase contract, as well as other regulatory, operational and economic aspects of the transaction. See Notes 6 and 8 to the Financial Statements for additional information.

Results of Operations

The following discussion provides a summary of KU's earnings and a description of factors that management expects may impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on KU's Statements of Income, comparing the three months ended March 31, 2012 with the same period in 2011.

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

Earnings

	Three Months Ended March 31, 2012	2011
Net Income	$ 38	$ 58

The changes in the components of Net Income between these periods were due to the following factors.

Margin	$ (16)
Other operation and maintenance	(10)
Depreciation	(2)
Taxes, other than income	(1)
Other Income (Expense) - net	(2)
Interest Expense	1
Income Taxes	10
Total	$ (20)

- See "Statement of Income Analysis - Margin - Changes in Non-GAAP Financial Measures" for an explanation of margin.

- Higher other operation and maintenance due to a $6 million credit to establish a regulatory asset recorded in the first quarter of 2011 related to 2009 storm costs, $3 million of higher steam maintenance costs primarily resulting from an increased scope of scheduled plant outages and $2 million of higher storm restoration and vegetation management costs.

- Lower income taxes primarily due to the change in pre-tax income.

Outlook

KU projects lower earnings in 2012 compared with 2011, as margin increases are not expected to offset operating expense increases, including depreciation. Actual results will be dependent on the effects of the economy and the impact of weather on retail sales among other variables. As a result of the stay out provision established in the settlement of the PPL-LKE acquisition, KU is generally unable to implement an increase in base rates in Kentucky before January 1, 2013.

Earnings in 2012 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in KU's 2011 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margin

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margin." Margin is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margin is a single financial performance measure of KU's operations. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expenses and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. As a result, this measure represents the net revenues from KU's operations. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margin" as defined by KU for the three months ended March 31.

	2012			2011		
	Margin	**Other (a)**	**Operating Income (b)**	**Margin**	**Other (a)**	**Operating Income (b)**
Operating Revenues	$ 380		$ 380	$ 406		$ 406
Operating Expenses						
Fuel	124		124	130		130
Energy purchases	29		29	35		35
Other operation and maintenance	12	$ 83	95	11	$ 73	84
Depreciation	12	36	48	11	34	45
Taxes, other than income		6	6		5	5
Total Operating Expenses	177	125	302	187	112	299
Total	$ 203	$ (125)	$ 78	$ 219	$ (112)	$ 107

(a) Represents amounts excluded from Margin.
(b) As reported on the Statement of Income.

Changes in Non-GAAP Financial Measures

Margins decreased by $16 million during the three months ended March 31, 2012, compared with the same period in 2011. The negative impact mainly resulted from $16 million of lower retail electric margins as volumes were impacted by unseasonably mild weather in the first quarter of 2012. The total heating degree days decreased by 23% compared to the same period in 2011.

The $26 million decrease in revenues resulted from a negative volume variance, largely due to a decrease in retail sales volumes of $21 million and a decrease in off-system sales volumes to third-parties of $1 million. This decrease was offset by a positive fuel price variance of $2 million, due to increased recoverable fuel expenses.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense was due to:

	Three Months Ended March 31, 2012 vs. March 31, 2011
Distribution maintenance (a)	$ 8
Other	3
Total	$ 11

(a) A $6 million credit to establish a regulatory asset was recorded in the first quarter of 2011 related to 2009 storm costs. Storm restoration and vegetation management costs increased $2 million.

Income Taxes

The increase (decrease) in income taxes was due to:

	Three Months Ended March 31, 2012 vs. March 31, 2011
Lower pre-tax book income	$ (12)
Other	2
Total	$ (10)

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

Financial Condition

Liquidity and Capital Resources

KU had the following at:

	March 31, 2012	December 31, 2011
Cash and cash equivalents	$ 46	$ 31

The $15 million increase in KU's cash and cash equivalents position was primarily the net result of:

- cash provided by operating activities of $152 million, partially offset by
- capital expenditures of $113 million and
- the payment of $24 million of common stock dividends.

KU's cash provided by operating activities increased by $21 million for the three months ended March 31, 2012, compared with the same period in 2011, primarily due to:

- a decrease in cash outflows of $27 million due to a reduction in discretionary defined benefit plan contributions;
- a decrease in cash outflows related to accounts payable to affiliates of $10 million due to the timing of cash payments; and
- a decrease in cash outflows related to inventory of $7 million, which was driven primarily by decreases in volumes in 2012 and 2011, which was attributed to reduced shipments after the winter seasonal build-up, and a decrease in price per ton of coal; partially offset by
- a net increase in accounts receivable and accounts payable of $20 million due to an increase in the customer receivable balance in 2012 resulting from increased revenues in 2012 following unseasonably mild weather in December 2011 and the timing of cash receipts and payments, including a $12 million collection in 2011 on 2010 tax settlements with LKE.

Credit Facilities

At March 31, 2012, KU's committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
Syndicated Credit Facility (a)	$ 400			$ 400
Letter of Credit Facility	198		$ 198	

(a) The commitments under KU's Syndicated Credit Facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 19% of the total committed capacity available to KU.

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to $500 million at an interest rate based on a market index of commercial paper issues. At March 31, 2012 and December 31, 2011, there was no balance outstanding.

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

Rating Agency Actions

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

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

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

The rating agencies took the following actions related to KU:

In February 2012, Fitch assigned ratings to KU's newly established commercial paper program.

In March 2012, Moody's affirmed the following ratings:

- the long-term ratings of the First Mortgage Bonds for KU;
- the issuer ratings for KU; and
- the bank loan ratings for KU.

Also in March 2012, Moody's and S&P each assigned short-term ratings to KU's newly established commercial paper programs.

Ratings Triggers

KU has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, and commodity transportation and storage, which contain provisions requiring KU to post additional collateral, or permitting the counterparty to terminate the contract, if KU's credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at March 31, 2012. At March 31, 2012, if KU's credit ratings had been below investment grade, the maximum amount that KU would have been required to post as additional collateral to counterparties was $29 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation and marketing operations.

Risk Management

Market Risk

KU is exposed to market risk from equity instruments, interest rate instruments and commodity instruments, as discussed below. However, regulatory cost recovery mechanisms significantly mitigate those risks. See Notes 13 and 14 to the Financial Statements for information about KU's risk management objectives, valuation techniques and accounting designations.

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

Commodity Price Risk

KU's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, KU is subject to commodity price risk for only a small portion of on-going business operations. KU conducts energy trading and risk management activities to maximize the value of the physical assets at times when the assets are not required to serve KU's or LG&E's customers. See Note 14 to the Financial Statements for additional disclosures.

Interest Rate Risk

KU has issued debt to finance its operations, which exposes it to interest rate risk. At March 31, 2012, KU's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

KU is also exposed to changes in the fair value of its debt portfolio. KU estimated that a 10% decrease in interest rates at March 31, 2012, would increase the fair value of its debt portfolio by $72 million.

Credit Risk

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL's and KU's 2011 Form 10-K for additional information.

Related Party Transactions

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

Acquisitions, Development and Divestitures

Development projects are continuously reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. See Note 8 to the Financial Statements for additional information on the more significant activities.

Environmental Matters

Protection of the environment is a major priority for KU and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to KU's air emissions, water discharges and the management of hazardous and solid waste, among other areas, and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures; or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc. and may impact the costs for their products or their demand for KU's services. See "Item 1. Business - Environmental Matters" in KU's 2011 Form 10-K and Note 10 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Notes 2 and 18 to the Financial Statements for a discussion of new accounting guidance adopted and pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations and require estimates or other judgments of matters inherently uncertain: revenue recognition - unbilled revenue, price risk management, defined benefits, asset impairment, loss accruals, AROs, income taxes and regulatory assets and liabilities. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in KU's 2011 Form 10-K for a discussion of each critical accounting policy.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in each Registrant's "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company, and Kentucky Utilities Company

(a) Evaluation of disclosure controls and procedures.

The registrants' principal executive officers and principal financial officers, based on their evaluation of the registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of March 31, 2012, the registrants' disclosure controls and procedures are effective to ensure that material information relating to the registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Change in internal controls over financial reporting.

PPL Corporation

As reported in the 2011 Form 10-K, PPL's principal executive officer and principal financial officer concluded that a recent systems migration related to the WPD Midlands acquisition created a material change to its internal control over financial reporting. Specifically, on December 1, 2011 the use of legacy information technology systems at WPD Midlands was discontinued and the related data, processes and internal controls were migrated to the systems, processes and controls currently in place at PPL WW.

Risks related to the system migration were partially mitigated by PPL's expanded internal control over financial reporting that were implemented subsequent to the acquisition and PPL's existing policy of consolidating foreign subsidiaries on a one-month lag, which provided management additional time for review and analysis of WPD Midlands' results and their incorporation into PPL's consolidated financial statements.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company, and Kentucky Utilities Company

The registrants' principal executive officers and principal financial officers have concluded that there were no changes in the registrants' internal control over financial reporting during the registrants' first fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For additional information regarding various pending administrative and judicial proceedings involving regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in each Registrant's 2011 Form 10-K; and
- Notes 5, 6 and 10 to the Financial Statements.

Item 1A . Risk Factors

There have been no material changes in the Registrant's risk factors from those disclosed in "Item 1A. Risk Factors" of the 2011 Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits have heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [_] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

*4(a)	-	Amendment No. 6 to PPL Amended and Restated Employee Stock Ownership Plan, dated January 18, 2012
4(b)	-	Final Terms of WPD East Midlands £100,000,000 5.25% Notes due 2023 (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 19, 2012)
[_]10(a)	-	Form of Retention Agreement entered into between PPL Corporation and Messrs. Farr and Gabbard (Exhibit 10(h) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
*[_]10(b)	-	Form of Change in Control Severance Protection Agreement as adopted March 5, 2012
*[_]10(c)	-	Change in Control Severance Protection Agreement, effective as of March 5, 2012, entered into between PPL Corporation and Gregory N. Dudkin
10(d)	-	Confirmation of Forward Sale Transaction, dated April 9, 2012, between PPL Corporation and Morgan Stanley & Co. LLC (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 13, 2012)
10(e)	-	Confirmation of Forward Sale Transaction, dated April 9, 2012, between PPL Corporation and Merrill Lynch International (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 13, 2012)
*10(f)	-	Commitment Increase Agreement, dated as of April 20, 2012, entered into by and among PPL Electric Utilities Corporation, the Lenders who are increasing their Commitments, the JLA Issuing Banks, who are consenting to the increase in Fronting Sublimit, and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender
10(g)	-	Confirmation of Forward Sale Transaction, dated April 20, 2012, between PPL Corporation and Morgan Stanley & Co. LLC (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 26, 2012)
10(h)	-	Confirmation of Forward Sale Transaction, dated April 20, 2012, between PPL Corporation and Merrill Lynch International (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 26, 2012)
*12(a)	-	PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
*12(b)	-	PPL Energy Supply, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
*12(c)	-	PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
*12(d)	-	LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
*12(e)	-	Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
*12(f)	-	Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charge

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended March 31, 2012, filed by the following officers for the following companies:

*31(a)	-	PPL Corporation's principal executive officer
*31(b)	-	PPL Corporation's principal financial officer
*31(c)	-	PPL Energy Supply, LLC's principal executive officer
*31(d)	-	Energy Supply, LLC's principal financial officer
*31(e)	-	PPL Electric Utilities Corporation's principal executive officer
*31(f)	-	PPL Electric Utilities Corporation's principal financial officer
*31(g)	-	LG&E and KU Energy LLC's principal executive officer

*31(h) - LG&E and KU Energy LLC's principal financial officer
*31(i) - Louisville Gas and Electric Company's principal executive officer
*31(j) - Louisville Gas and Electric Company's principal financial officer
*31(k) - Kentucky Utilities Company's principal executive officer
*31(l) - Kentucky Utilities Company's principal financial officer

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended March 31, 2012, furnished by the following officers for the following companies:

*32(a) - PPL Corporation's principal executive officer
*32(b) - PPL Corporation's principal financial officer
*32(c) - PPL Energy Supply, LLC's principal executive officer
*32(d) - Energy Supply, LLC's principal financial officer
*32(e) - PPL Electric Utilities Corporation's principal executive officer
*32(f) - PPL Electric Utilities Corporation's principal financial officer
*32(g) - LG&E and KU Energy LLC's principal executive officer
*32(h) - LG&E and KU Energy LLC's principal financial officer
*32(i) - Louisville Gas and Electric Company's principal executive officer
*32(j) - Louisville Gas and Electric Company's principal financial officer
*32(k) - Kentucky Utilities Company's principal executive officer
*32(l) - Kentucky Utilities Company's principal financial officer

101.INS - XBRL Instance Document for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.SCH - XBRL Taxonomy Extension Schema for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.CAL - XBRL Taxonomy Extension Calculation Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.DEF - XBRL Taxonomy Extension Definition Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.LAB - XBRL Taxonomy Extension Label Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.PRE - XBRL Taxonomy Extension Presentation Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation
(Registrant)

PPL Energy Supply, LLC
(Registrant)

Date: May 7, 2012

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller
(Principal Accounting Officer)

PPL Electric Utilities Corporation
(Registrant)

Date: May 7, 2012

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and
Chief Accounting Officer
(Principal Financial and Accounting Officer)

LG&E and KU Energy LLC
(Registrant)

Louisville Gas and Electric Company
(Registrant)

Kentucky Utilities Company
(Registrant)

Date: May 7, 2012

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 4(a)

AMENDMENT NO. 6
TO
PPL EMPLOYEE STOCK OWNERSHIP PLAN

WHEREAS, PPL Services Corporation ("PPL") has adopted the PPL Employee Stock Ownership Plan ("Plan") effective January 1, 2000; and

WHEREAS, the Plan was amended and restated effective January 1, 2002, and subsequently amended by Amendment No. 1, 2, 3, 4 and 5; and

NOW, THEREFORE, the Plan is hereby amended as follows:

I. Effective January 1, 2012, Appendix A is amended to read as follows:

Appendix A

Participating Company

Name		Effective Date
1.	PPL Services Corporation	July 1, 2000
2.	PPL Electric Utilities Corporation	January 1, 1975
3.	PPL EnergyPlus, LLC	July 14, 1998
4.	PPL Generation, LLC	July 1, 2000
5.	PPL Brunner Island, LLC	July 1, 2000
6.	PPL Holtwood, LLC	July 1, 2000
7.	PPL Martins Creek, LLC	July 1, 2000
8.	PPL Montour, LLC	July 1, 2000
9.	PPL Susquehanna, LLC	July 1, 2000
10.	PPLSolutions, LLC	January 1, 2002
11.	PPL Telcom, LLC	February 5, 2001
12.	Lower Mount Bethel Energy, LLC	September 30, 2002
13.	PPL Edgewood Energy, LLC	April 1, 2003
14.	PPL Maine, LLC	April 1, 2003
15.	PPL Wallingford Energy, LLC	April 1, 2003
16.	PPL Development Company, LLC	January 1, 2006
17.	PPL Global, LLC	January 1, 2006
18.	PPL Energy Services Group, LLC	September 25, 2006
19.	PPL Interstate Energy Company	January 1, 2008
20.	PPL Strategic Development, LLC	January 1, 2012

II. Except as provided in this Amendment No. 6, all other provisions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment No. 6 is executed this ____________ day of ______________, 2012.

PPL SERVICES CORPORATION

By: _______________________________
Stephen R. Russo
Vice President-Human Resources
and Services

CHANGE IN CONTROL SEVERANCE PROTECTION AGREEMENT

THIS AGREEMENT, effective as of _______________, ____, is made by and between PPL Corporation, a Pennsylvania corporation and _______________ (the "Executive").

WHEREAS, the Company considers it essential to the best interests of its shareowners to foster the continued employment of key management personnel;

WHEREAS, the Board of Directors of the Company (the "Board") recognizes that, as is the case with many publicly-held corporations, the possibility of a Change in Control (as defined in the last Section hereof) exists and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its shareowners;

WHEREAS, the Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of management, including the Executive, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a Change in Control; and

[WHEREAS, the Executive and the Company have entered into a Severance Agreement effective as of __________________ (the “Prior Severance Agreement”), which the Executive and the Company desire to terminate, in its entirety, effective as of the date hereof, and in lieu thereof enter into this Agreement;]

NOW THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Executive hereby agree as follows:

1. Defined Terms. The definitions of capitalized terms used in this Agreement are provided in the last Section hereof.

2. Term of Agreement. The Term of this Agreement shall commence on the date hereof and shall continue in effect through December 31, _____, and shall continue from year to year, commencing each January 1 thereafter, unless either the Company or the Executive gives at least 6 months advance notice, by not later than June 30 of the year, that the Term shall end at December 31 of that year and shall not continue; provided, however, that the Term shall not be terminated or amended during a Potential Change in Control Period, and provided further, that if a Change in Control shall have occurred during the Term, the Term shall expire no earlier than twenty-four (24) months beyond the month in which such Change in Control occurred. Notwithstanding the foregoing, and subject to any extensions pursuant to Section 7.3, in the event that prior to the occurrence of a Change in Control or Potential Change in Control, the Executive's employment is terminated for any reason or, upon Executive’s termination of employment at any time for any reason other than pursuant to a Qualifying Termination, this Agreement shall terminate as of the date that the Executive's employment is terminated.

3. Company's Covenants Summarized. In order to induce the Executive to remain in the employ of the Company and in consideration of the Executive's covenants set forth in Section 4 hereof, the Company agrees, under, and subject to, the conditions described herein, to pay the Executive the Severance Payments and the other payments and benefits described herein. No Severance Payments shall be payable under this Agreement unless there shall have been a Qualifying Termination. This Agreement shall not be construed as creating an express or implied contract of employment and, except as otherwise agreed to in writing between the Executive and the Company, the Executive shall not have any right to be retained in the employ of the Company.

4. The Executive's Covenants. The Executive agrees that, subject to the terms and conditions of this Agreement, in the event of a Potential Change in Control during the Term, the Executive will remain in the employ of the Company until the earliest of (i) the last day of the Potential Change in Control Period, (ii) the date of a Change in Control, (iii) the date of termination by the Executive of the Executive's employment for Good Reason or by reason of death, Disability or Retirement, or (iv) the termination by the Company of the Executive's employment for any reason.

5. Compensation Other Than Severance Payments.

5.1 Following a Change in Control and during the Term, during any period that the Executive fails to perform the Executive's full-time duties with the Company as a result of incapacity due to physical or mental illness, the Company shall pay the Executive's full salary to the Executive at the rate in effect at the commencement of any such period, together with all compensation and benefits payable to the Executive under the terms of any compensation or benefit plan, program or arrangement maintained by the Company during such period (other than any disability plan), until the Executive's employment is terminated by the Company for Disability or until Executive’s employment is otherwise terminated.

5.2 If the Executive's employment shall be terminated due to a Qualifying Termination, the Company shall pay to the Executive within thirty (30) days following the Date of Termination (to the extent not previously paid), a lump sum amount equal to the sum of (i) the Executive's full base salary through the Date of Termination at the rate in effect immediately prior to the Date of Termination, or if higher, the rate in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason, (ii) the value of any annual bonus or cash incentive plan payment that would have been paid for service in the final calendar year of employment, as if 100% of target goals were achieved, but prorated by multiplying by a fraction equal to the number of full calendar months of service completed divided by 12, and (iii) the value of any Restricted Stock Units that would have been awarded for service in the final calendar year of employment, as if

100% of target goals were achieved, but prorated by multiplying by a fraction equal to the number of full calendar months of service completed divided by 12 together with all compensation and benefits payable to the Executive through the Date of Termination under the terms of the Company's compensation or benefit plans, programs or arrangements as in effect immediately prior to the Date of Termination, or if more favorable to the Executive, as in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason.

5.3 If the Executive's employment shall be terminated due to a Qualifying Termination, the Company shall pay to the Executive the Executive's normal post-termination compensation and benefits due the Executive as such payments become due (other than Severance Payments which will be paid exclusively pursuant to Section 6 below). Such post-termination compensation and benefits shall be determined under, and paid in accordance with, the Company's retirement, insurance and other compensation or benefit plans, programs and arrangements as in effect immediately prior to the Date of Termination or, if more favorable to the Executive, as in effect immediately prior to the occurrence of the first event or circumstance constituting Good Reason including such plans' payment timing rules.

6. Severance Payments .

6.1 The Company shall pay the Executive the payments, and provide the Executive the benefits, described in Section 6.2 (the "Severance Payments") upon a Qualifying Termination.

6.2 The following shall constitute the Severance Payments under this Agreement:

(A) In lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination and in lieu of any severance benefit otherwise payable to the Executive including any payments under the Company's Separation Policy (GP401) or any similar plan, policy or procedure or arrangement, if eligible, or the Executive's Prior Severance Agreement or any employment agreement or arrangement between the Executive and the Company, to the extent provided in Section 11 of this Agreement, the Company shall pay to the Executive a lump sum severance payment, in cash, equal to two times the sum of (i) the Executive's base salary as in effect immediately prior to the Date of Termination or, if higher, in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason, and (ii) the average of annual cash bonuses earned by the Executive pursuant to any annual bonus or annual incentive plan maintained by the Company in respect of the last three fiscal years ending immediately prior to the fiscal year in which occurs the Date of Termination or, if higher, immediately prior to the fiscal year in which occurs the first event or circumstance constituting Good Reason (including as an amount so paid any amount that would have been paid but for the Executive's deferral of the amount). For purposes of determining the value of the annual bonus earned by the Executive in any fiscal year, the value of any restricted stock awards or stock options earned by the Executive in any such year shall not be included in the value of the annual bonus for such year;

(B) The Company shall pay to the Executive a lump sum amount, in cash, equal to the aggregate amount of COBRA premiums otherwise payable by Executive (based upon the COBRA rate in effect on the date of such termination of employment) for the twenty-four (24) month period immediately following the Date of Termination (assuming for this purpose that COBRA continuation coverage would have been available for such twenty-four (24) month period).

(C) Notwithstanding any provision of any annual or long-term incentive plan to the contrary, the Company shall pay to the Executive a lump sum amount, in cash, equal to the sum of (i) any unpaid cash-based incentive compensation that has been allocated or awarded to the Executive for a completed fiscal year or other measuring period preceding the Date of Termination under any such plan and which, as of the Date of Termination, is contingent only upon the continued employment of the Executive to a subsequent date, and (ii) to the extent not otherwise paid or deferred at the Executive's election, pursuant to the terms of the applicable plan, a pro rata portion to the Date of Termination of the aggregate value of all contingent cash-based incentive compensation awards to the Executive for all then uncompleted periods under any such plan, calculated as to each such award by multiplying the award that the Executive would have earned on the last day of the performance award period, assuming the achievement, at the actual level of performance as of the date of Change in Control (or, if not determinable at such date, as of the end of the quarter preceding such date), of the individual and corporate performance goals established with respect to such award, by the fraction obtained by dividing the number of full months and any fractional portion of a month during such performance award period through the Date of Termination by the total number of months contained in such performance award period.

(D) If the Executive would have become entitled to benefits under the Company's post-retirement health care or life insurance plans, as in effect immediately prior to the Date of Termination or, if more favorable to the Executive, as in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason, had the Executive's employment terminated at any time during the period of twenty-four (24) months after the Date of Termination, the Company shall provide such post-retirement health care or life insurance benefits to the Executive and the Executive's dependents commencing on the date on which such coverage would have first become available.

(E) The Company shall provide the Executive with outplacement services suitable to the Executive's position until December 31 of the second calendar year following the year in which Executive's employment with the Company terminates or, if earlier, until the first acceptance by the Executive of an offer of employment, but limited to total outplacement fees of $50,000.

6.3 (A) Notwithstanding any other provisions of this Agreement, in the event that any payment or benefit received or to be received by the Executive in connection with a Change in Control or the termination of the Executive's employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any Person whose actions result in a Change in Control or any Person affiliated with the Company or such Person) (all such payments and benefits, including the Severance Payments, being hereinafter called "Total Payments") would be subject (in whole or part), to the Excise Tax, then the cash

Severance Payments shall be reduced (if necessary to zero) to the extent necessary so that no portion of the Total Payments is subject to the Excise Tax (after taking into account any reduction in the Total Payments provided by reason of section 280G of the Code in such other plan, arrangement or agreement) and all other Severance Payments shall thereafter be reduced (if necessary, to zero) so that no portion of the Total Payments is subject to the Excise Tax, if, but only if, (i) the net amount of such Total Payments, as so reduced, (and after deduction of the net amount of federal, state and local income tax on such reduced Total Payments) is greater than (ii) the excess of (a) the net amount of such Total Payments, without reduction (but after deduction of the net amount of federal, state and local income tax on such Total Payments), over (b) the amount of Excise Tax to which the Executive would be subject in respect of such Total Payments (the "Cut-Back Condition").

Such reduction shall apply first to the cash payments provided under Section 6.2(A) and thereafter shall apply on a pro-rata basis to other payments in a manner that complies with Section 409A of the Code.

(B) For purposes of determining whether and the extent to which the Total Payments will be subject to the Excise Tax and whether the Cut-Back Condition will be satisfied, (i) no portion of the Total Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a "payment" within the meaning of section 280G(b) of the Code shall be taken into account, (ii) no portion of the Total Payments shall be taken into account which, in the opinion of tax counsel selected by the accounting firm that was, immediately prior to the Change in Control, the Company's independent auditor (the "Auditor"), does not constitute a "parachute payment" within the meaning of section 280G(b)(2) of the Code, (including by reason of section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax and determining whether the Cut-Back Condition is satisfied, no portion of such Total Payments shall be taken into account which constitutes reasonable compensation for services actually rendered, within the meaning of section 280G(b)(4)(B) of the Code, in excess of the Base Amount allocable to such reasonable compensation, and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Auditor in accordance with the principles of sections 280G(d)(3) and (4) of the Code. Prior to the payment date set forth in Section 6.3 hereof, the Company shall provide the Executive with its calculation of the amounts referred to in this Section and such supporting materials as are reasonably necessary for the Executive to evaluate the Company's calculations. If the Executive objects to the Company's calculations, the Company shall pay to the Executive (as such time or times otherwise provided by this Agreement) such portion of the Severance Payments (up to 100% thereof) as the Executive determines is necessary to result in the Executive receiving the greater of clauses (i) and (ii) of Section 6.2(A) hereof.

(C) If it is established pursuant to a final determination of a court or an Internal Revenue Service proceeding that, notwithstanding the good faith of the Executive and the Company in applying the terms of this Section 6.2, the Total Payments paid to or for the Executive's benefit are in an amount that would result in any portion of such Total Payments being subject to the Excise Tax, then, if such repayment would result in satisfaction of the Cut-Back Condition, the Executive shall have an obligation to pay the Company upon demand an amount equal to the sum of (i) the excess of the Total Payments paid to or for the Executive's benefit over the Total Payments that could have been paid to or for the Executive's benefit without any portion of such Total Payments being subject to the Excise Tax; and (ii) interest on the amount set forth in clause (i) of this sentence at the rate provided in section 1274(b)(2)(B) of the Code from the date of the Executive's receipt of such excess until the date of such payment.

6.4 The payments provided in subsection 6.2(A), (B), (C) and (D) hereof and Section 6.3 hereof shall be made on the first day of the seventh month following the Date of Termination provided, however, that if the amounts of such payments cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined in good faith by the Executive, or, in the case of payments under Section 6.2 hereof, in accordance with Section 6.2 hereof, of the minimum amount of such payments to which the Executive is clearly entitled and shall pay the remainder of such payments (together with interest on the unpaid remainder (or on all such payments to the extent the Company fails to make such payments when due) at 120% of the rate provided in section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined but in no event later than the thirtieth (30th) day after the last day of the seventh month following the Date of Termination. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth (5th) business day after demand by the Company (together with interest at 120% of the rate provided in section 1274(b)(2)(B) of the Code). At the time that payments are made under this Agreement, the Company shall provide the Executive with a written statement setting forth the manner in which such payments were calculated and the basis for such calculations including, without limitation, any opinions or other advice the Company has received from Tax Counsel, the Auditor or other advisors or consultants (and any such opinions or advice which are in writing shall be attached to the statement).

6.5 The Company also shall pay to the Executive all legal fees and expenses incurred by the Executive in disputing in good faith any issue hereunder relating to the termination of the Executive's employment hereunder with respect to which Executive substantially prevails or in seeking in good faith to obtain or enforce any benefit or right provided by this Agreement with respect to which Executive substantially prevails or in connection with any tax audit or proceeding to the extent attributable to the application of section 4999 of the Code to any payment or benefit provided hereunder. Such payments shall be made within five (5) business days after delivery of the Executive's written requests for payment accompanied with such evidence of fees and expenses incurred as the Company reasonably may require (and Executive shall submit such requests for payment no later than 60 days after such expenses are incurred).

7. Termination Procedures.

7.1 Notice of Termination. After a Change in Control (or during a Potential Change in Control Period) and during the Term, any purported termination of the Executive's employment (other than by reason of death) shall be communicated by written Notice of Termination from one party hereto to the other party hereto in accordance with Section 10 hereof (delivered at least 30 days prior to the Date of Termination in the case of a termination by the Executive). For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. Further, a Notice of Termination for Cause is required to include a copy of a resolution duly adopted by the affirmative vote of not less than a majority of the Board at a meeting of the Board which was called and held for the purpose of considering such termination (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive's counsel, to be heard before the Board) finding that, in the good faith opinion of the Board, the Executive was guilty of conduct set forth in clause (i) or (ii) of the definition of Cause herein, and specifying the particulars thereof in detail.

7.2 Date of Termination. "Date of Termination", with respect to any purported termination of the Executive's employment after a Change in Control and during the Term, shall mean the date of the Executive’s “separation from service” within the meaning of Section 409A of the Code. In the event of an Anticipatory Termination, the Date of Termination shall be deemed to be the date of the subsequent occurrence of the Change in Control.

8. No Mitigation. The Company agrees that, if the Executive's employment with the Company terminates during the Term, the Executive is not required to seek other employment or to attempt in any way to reduce any amounts payable to the Executive by the Company pursuant to Section 6 or Section 7.4 hereof. Further, the amount of any payment or benefit provided for in this Agreement shall not be reduced by any compensation earned by the Executive as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Executive to the Company, or otherwise.

9. Successors; Binding Agreement.

9.1 Unless otherwise assumed by operation of law, the Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

9.2 This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive shall die while any amount would still be payable to the Executive hereunder (other than amounts which, by their terms, terminate upon the death of the Executive) if the Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the executors, personal representatives or administrators of the Executive's estate.

10. Notices. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed, to the Executive at the last known address maintained in the Company's personnel records, and to the Company, to the address set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon actual receipt:

To the Company:

PPL Corporation
Two North Ninth Street
Allentown, Pennsylvania 18101
Attention: Corporate Secretary

11. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or any lack of compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. This Agreement supersedes any other agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof, which have been made by either party, including but not limited to, the Prior Severance Agreement; provided, however, that this Agreement shall supersede any agreement setting forth the terms and conditions of the Executive's employment with the Company only in the event that the Executive's employment with the Company is terminated during the Term in connection with a Qualifying Termination. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the Commonwealth of Pennsylvania. All references to sections of the Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law and any additional withholding to which the Executive has agreed. The obligations of the Company and the Executive under this Agreement that by their nature may require either partial or total performance after the expiration of the Term (including, without limitation, those under Sections 6 and 7 hereof) shall survive such expiration.

12. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

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

14. Settlement of Disputes; Arbitration. The Board shall make all determinations as to the Executive's right to benefits under this Agreement. Any denial by the Board of a claim for benefits under this Agreement shall be stated in writing and delivered or mailed to the Executive and such notice shall set forth the specific reasons for the denial and the specific provisions of this Agreement relied upon, and

shall be written in a manner that may be understood without legal or actuarial counsel. In addition, the Board shall afford a reasonable opportunity to the Executive for a review of the decision denying the Executive's claim and, in the event of continued disagreement, the Executive may appeal within a period of 60 days after receipt of notification of denial. Failure to perfect an appeal within the 60-day period shall make the decision conclusive. Any further dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Philadelphia, Pennsylvania in accordance with the rules of the American Arbitration Association then in effect; provided, however, that the evidentiary standards set forth in this Agreement shall apply. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

15. Section 409A of the Code .

(A) Although the Company does not guarantee to the Executive any particular tax treatment relating to the payments and benefits under this Agreement, it is intended that such payments and benefits be exempt from, or comply with, Section 409A of Code and the regulations and guidance promulgated thereunder (collectively "Code Section 409A"), and all provisions of this Agreement shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Code Section 409A. Notwithstanding any provision herein to the contrary, in no event shall the Company be liable for, or be required to indemnify the Executive for, any liability of the Executive for taxes or penalties under Code Section 409A.

(B) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment" or like terms shall mean "separation from service."

(C) With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Code Section 409A, (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit; (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year, provided, that the foregoing clause (ii) shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period the arrangement is in effect; and (iii) such payments shall be made on or before the last day of the Executive's taxable year following the taxable year in which the expense was incurred.

(D) Whenever a payment under this Agreement specifies a payment period with reference to a number of days (e.g., "payment shall be made within ten (10) days following the date of termination"), the actual date of payment within the specified period shall be within the sole discretion of the Company.

(E) If under this Agreement, an amount is to be paid in two or more installments, for purposes of Code Section 409A, each installment shall be treated as a separate payment.

(F) Notwithstanding anything herein to the contrary, if the Executive is, as of the date of termination, a "specified employee" for purposes of Treas. Reg. § 1.409A-1(i), then any amount of deferred compensation that is payable to the Executive hereunder that is neither a short-term deferral within the meaning of Treas. Reg. § 1.409A-1(b)(4) nor within the involuntary separation pay limit under Treas. Reg. § 1.409A-1(b)(9)(iii)(A) will not be paid before the date that is six months after the date of termination, or if earlier, the date of the Executive's death. Any payments to which the Executive would otherwise be entitled during such non-payment period will be accumulated and paid or otherwise provided to the Executive on the first day of the seventh month following such date of termination, or if earlier, within 30 days of the Executive's death to his or her surviving spouse (or to the Executive's estate if the Executive's spouse does not survive the Executive.)

16. Definitions . For purposes of this Agreement, the following terms shall have the meanings indicated below:

(A) "Act" shall mean the Securities Exchange Act of 1934, as amended, or any successor statute thereto.

(B) "Affiliate" shall mean, with respect to any Person, any other Person, directly or indirectly, controlling, controlled by, or under common control with such Person or any other Person designated by the Committee in which any Person has an interest.

(C) " Anticipatory Termination " shall mean if (A) the Executive's employment is terminated by the Company without Cause prior to a Change in Control and such termination was at the request or direction of a Person who has entered into an agreement with the Company the consummation of which would constitute a Change in Control and such Change in Control ultimately occurs or (B) if the Executive terminates his employment for Good Reason prior to a Change in Control and the circumstance or event which constitutes Good Reason occurs at the request or direction of a Person who has entered into an agreement with the Company the consummation of which would constitute a Change in Control and such Change in Control ultimately occurs (each such termination described in clauses (A) and (B) being deemed to constitute a Qualifying Termination).

(D) "Base Amount" shall have the meaning set forth in section 280G(b)(3) of the Code.

(E) "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act.

(F) "Board" shall mean the Board of Directors of the Company.

(G) "Cause" for termination by the Company of the Executive's employment shall mean (i) the willful and continued failure by the Executive to substantially perform the Executive's duties with the Company (other than any such failure resulting from the Executive's incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive pursuant to Section 7.1 hereof) after a written demand for substantial performance is delivered to the Executive by the Board, which demand specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive's duties, or (ii) the willful engaging by the Executive in conduct which is demonstrably and materially injurious to the Company or its subsidiaries, monetarily or otherwise. For purposes of clauses (i) and (ii) of this definition, (a) no act, or failure to act, on the Executive's part shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's act, or failure to act, was in the best interest of the Company, and (b) in the event of a dispute concerning the application of this provision, no claim by the Company that Cause exists shall be given effect unless the Company establishes to the Board by clear and convincing evidence that Cause exists.

(H) "Change in Control" means the occurrence of any one of the following events:

(i) any Person or Group is or becomes the "beneficial owner" (as defined in rules 13d-3 and 13d-5 under the Act) directly or indirectly of more than 30% of the total voting power of the voting stock of the Company (or any entity which controls the Company) within a 12 month period, including by way of merger, consolidation, tender or exchange offer, or otherwise;

(ii) a reorganization, recapitalization, merger or consolidation (a " Corporate Transaction ") involving the Company, unless securities representing 70% or more of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the Company or the corporation resulting from such Corporate Transaction (or the parent of such corporation) are held subsequent to such transaction by the Person or Persons who were the "beneficial owners" of the outstanding voting securities entitled to vote generally in the election of directors of the Company immediately prior to such Corporate Transaction, in substantially the same proportions as their ownership immediately prior to such Corporate Transaction;

(iii) the sale or disposition, in one or a series of related transactions, of all or substantially all, of the assets of the Company to any Person or Group; or

(iv) during any period of 12 months, individuals who at the beginning of such period constituted the Board (together with any new directors whose election by such Board or whose nomination for election by the stockholders of the Company was approved by a vote of a majority of the directors of the Company, then still in office, who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board, then in office.

(I) "Code" shall mean the Internal Revenue Code of 1986, as amended, or any successor thereto, and the regulations and guidance promulgated thereunder.

(J) "Company" shall mean PPL Corporation and, except in determining, under Section 15(E) hereof, whether or not any Change in Control of the Company has occurred in connection with such succession, shall include its subsidiaries and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise. For purposes of this Agreement, the Executive's employment by (including termination of such employment) and compensation from any subsidiary of the Company shall be deemed employment by and compensation from the Company.

(K) "Date of Termination" shall have the meaning set forth in Section 7.2 hereof.

(L) "Disability" shall be deemed the reason for the termination by the Company of the Executive's employment, if, as a result of the Executive's incapacity due to physical or mental illness, the Executive shall have been absent from the full-time performance of the Executive's duties with the Company for a period of six (6) consecutive months, the Company shall have given the Executive a Notice of Termination for Disability, and, within thirty (30) days after such Notice of Termination is given, the Executive shall not have returned to the full-time performance of the Executive's duties.

(M) "Excise Tax" shall mean any excise tax imposed under section 4999 of the Code.

(N) "Executive" shall mean the individual named in the first paragraph of this Agreement.

(O) "Good Reason" for termination of the Executive's employment with the Company by such Executive shall mean the occurrence (without the Executive's express written consent which specifically references this Agreement) after a Change in Control or during a Potential Change in Control Period (treating all references in paragraphs (I) through (VII) below to a "Change in Control" as references to a "Potential Change in Control"), of any one of the following acts by the Company, or failures by the Company to act, unless, in the case of any act or failure to act described below, the Company gives notice to the Executive that it will correct, and within 30 days does so correct such act or failure to act:

(I) the assignment to the Executive of any duties inconsistent with the Executive's status as an executive officer or key employee of the Company or a substantial adverse alteration in the nature or status of the Executive's responsibilities from those in effect immediately prior to a Change in Control;

(II) a reduction by the Company of the Executive's annual base salary as in effect on the date of this Agreement, or as the same may be increased from time to time, except for across-the-board decreases uniformly affecting management, key employees and salaried employees of the Company or the business unit in which the Executive is then employed;

(III) the relocation of the Executive's principal work location to a location more than 30 miles from the vicinity of such work location immediately prior to a Change in Control or the Company's requiring the Executive to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on the Company's business to an extent substantially consistent with the Executive's present business travel obligations;

(IV) the failure by the Company to pay to the Executive any portion of the Executive's current compensation or to pay to the Executive any portion of an installment of deferred compensation under any deferred compensation program of the Company, within seven (7) days of the date such compensation is due, except for across-the-board compensation deferrals uniformly affecting management, key employees and salaried employees of the Company or the business unit in which the Executive is then employed;

(V) the failure by the Company to continue in effect any compensation or benefit plan in which the Executive participates immediately prior to a Change in Control which is material to the Executive's total compensation, or any substitute plans adopted prior to a Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Executive's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount or timing of payment of benefits provided and the level of the Executive's participation relative to other participants, as existed immediately prior to the Change in Control;

(VI) the failure by the Company to continue to provide the Executive with benefits substantially similar to those enjoyed by the Executive under any of the Company's pension, savings, life insurance, medical, health and accident, or disability plans in which the Executive was participating immediately prior to a Change in Control, except for across-the-board changes to any such plans uniformly affecting all participants in such plans, the taking of any other action by the Company which would directly or indirectly materially reduce any of such benefits or deprive the Executive of any material fringe benefit enjoyed by the Executive at the time of the Change in Control, or the failure by the Company to provide the Executive with the number of paid vacation days to which the Executive is entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy at the time of the Change in Control; or

(VII) the failure of the Company to comply with the provisions of Section 9.1;

in each case described in clauses (I)-(VII) which is not cured by the Company within 30 days following written notice from Executive to the Company.

The Executive's right to terminate his or her employment with the Company for Good Reason shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

(P) “Group” shall mean “group” as such term is uses for purposes of Section 13(d) or 14(d) of the Act.

(Q) "Notice of Termination" shall have the meaning stated in Section 7.1 hereof.

(R) "Pension Plan" shall mean any tax-qualified, supplemental or excess defined benefit pension plan maintained by the Company and any other agreement entered into between the Executive and the Company which is designed to provide the Executive with supplemental retirement benefits.

(S) "Person" shall have the meaning given in Section 3(a)(9) of the Act, as modified and used in Sections 13(d) and 14(d) thereof; provided, however, a Person shall not include (i) the Company or any of its Affiliates, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the shareowners of the Company in substantially the same proportions as their ownership of stock of the Company.

(T) "Potential Change in Control" shall be deemed to have occurred if the conditions or events set forth in any one of the following paragraphs shall have been satisfied or shall have occurred:

(i) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control;

(ii) the Company or any Person publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control;

(iii) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 5% or more of the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors.

Notwithstanding the foregoing, a "Potential Change in Control" shall not be deemed to occur if (i) a Person acquired such beneficial ownership of 5% or more of the Company's outstanding common shares but less than 20% and such Person has reported or is required to report such ownership on Schedule 13G under the Act (or any comparable or successor report); (ii) a Person acquired such beneficial ownership of 5% or more of the Company's outstanding common shares and such Person has reported or is required to report such ownership under Schedule 13D under the Act (or any comparable or successor report), which Schedule 13D does not state any intention to or reserve the right to control or influence the management or policies of the Company or engage in any of the actions specified in Item 4 of such Schedule (other than the disposition of the common shares) and, within 10 business days of being requested by the Company to advise it regarding the same, certifies to the Company that such Person acquired common shares amounting to 5% or more of the Company's outstanding common shares inadvertently and who or which, together with all Affiliates thereof, thereafter does not acquire additional common shares while the Beneficial Owner, as such term is defined in or used by Regulation 13D-G as promulgated under the Act, of 5% or more of the common shares then outstanding; provided, however, that if the Person requested to so certify fails to do so within 10 business days, then a Potential Change in Control shall be deemed to have occurred immediately after such 10-Business-Day period; or (iii) any Person who becomes the Beneficial Owner of 5% or more of the common shares then outstanding due to the repurchase of common shares by the Company unless and until such Person, after becoming aware that such Person has become the Beneficial Owner of 5% or more of the common shares then outstanding, acquires beneficial ownership of additional common shares representing 1% or more of the common shares then outstanding.

(U) "Potential Change in Control Period" shall mean the period commencing on the occurrence of a Potential Change in Control and ending upon the occurrence of a Change in Control or, if earlier (i) with respect to a Potential Change in Control occurring pursuant to clause (I) of such definition, immediately upon the abandonment or termination of the applicable agreement, (ii) with respect to a Potential Change in Control occurring pursuant to clause (II) of such definition, immediately upon a public announcement by the applicable party that such party has abandoned its intention to take or consider taking actions which if consummated would result in a Change in Control or (iii) with respect to a Potential Change in Control occurring pursuant to clause (III) of such definition, upon the one year anniversary of the occurrence of such Potential Change in Control (or such earlier date as may be determined by the Board).

(V) “Qualifying Termination” shall mean an Anticipatory Termination or a termination of Executive’s employment following a Change in Control and during the Term either (i) by the Company without Cause or (ii) by the Executive for Good Reason (which, for the avoidance of doubt, shall not include any termination of Executive’s employment (x) by the Company for Cause, (y) by Executive without Good Reason or (z) due to Executive’s death or Disability).

(W) "Retirement" shall be deemed the reason for the termination by the Executive of the Executive's employment if such employment is terminated in accordance with the Company's retirement policy, including early retirement, generally applicable to its salaried employees.

(X) "Severance Payments" shall have the meaning set forth in Section 6.1 hereof.

(Y) "Term" shall mean the period of time described in Section 2 hereof (including any extension, continuation or termination described therein).

(Z) "Total Payments" shall mean those payments described in Section 6.3 hereof.

PPL CORPORATION

By: ______________________________ ______________________________
William H. Spence Date
President and CEO

______________________________ ______________________________
[Name of Executive] Date

Exhibit 10(c)

CHANGE IN CONTROL SEVERANCE PROTECTION AGREEMENT

THIS AGREEMENT, effective as of March 5, 2012, is made by and between PPL Corporation, a Pennsylvania corporation and Gregory N. Dudkin (the "Executive").

WHEREAS, the Company considers it essential to the best interests of its shareowners to foster the continued employment of key management personnel;

WHEREAS, the Board of Directors of the Company (the "Board") recognizes that, as is the case with many publicly held corporations, the possibility of a Change in Control (as defined in the last Section hereof) exists and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its shareowners;

WHEREAS, the Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of management, including the Executive, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a Change in Control; and

WHEREAS, the Executive and the Company have entered into a Severance Agreement effective as of June 29, 2009 (the "Prior Severance Agreement"), which the Executive and the Company desire to terminate, in its entirety, effective as of the date hereof, and in lieu thereof enter into this Agreement;

NOW THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Executive hereby agree as follows:

1. Defined Terms . The definitions of capitalized terms used in this Agreement are provided in the last Section hereof.

2. Term of Agreement . The Term of this Agreement shall commence on the date hereof and shall continue in effect through December 31,2012, and shall continue from year to year, commencing each January 1 thereafter, unless either the Company or the Executive gives at least six months advance notice, by not later than June 30 of the year, that the Term shall end at December 31 of that year and shall not continue; provided , however , that the Term shall not be terminated or amended during a Potential Change in Control Period, and provided further , that if a Change in Control shall have occurred during the Term, the Term shall expire no earlier than twenty-four (24) months beyond the month in which such Change in Control occurred. Notwithstanding the foregoing, in the event that prior to the occurrence of a Change in Control or Potential Change in Control, the Executive's employment is terminated for any reason or, upon Executive’s termination of employment at any time for any reason other than pursuant to a Qualifying Termination, this Agreement shall terminate as of the date that the Executive's employment is terminated.

3. Company's Covenants Summarized . In order to induce the Executive to remain in the employ of the Company and in consideration of the Executive's covenants set forth in Section 4 hereof, the Company agrees, under, and subject to, the conditions described herein, to pay the Executive the Severance Payments and the other payments and benefits described herein. No Severance Payments shall be payable under this Agreement unless there shall have been a Qualifying Termination. This Agreement shall not be construed as creating an express or implied contract of employment and, except as otherwise agreed to in writing between the Executive and the Company, the Executive shall not have any right to be retained in the employ of the Company.

4. The Executive's Covenants . The Executive agrees that, subject to the terms and conditions of this Agreement, in the event of a Potential Change in Control during the Term, the Executive will remain in the employ of the Company until the earliest of (i) the last day of the Potential Change in Control Period, (ii) the date of a Change in Control, (iii) the date of termination by the Executive of the Executive's employment for Good Reason or by reason of death, Disability or Retirement, or (iv) the termination by the Company of the Executive's employment for any reason.

5. Compensation Other Than Severance Payments .

5.1 Following a Change in Control and during the Term, during any period that the Executive fails to perform the Executive's full-time duties with the Company as a result of incapacity due to physical or mental illness, the Company shall pay the Executive's full salary to the Executive at the rate in effect at the commencement of any such period, together with all compensation and benefits payable to the Executive under the terms of any compensation or benefit plan, program or arrangement maintained by the Company during such period (other than any disability plan), until the Executive's employment is terminated by the Company for Disability or until Executive’s employment is otherwise terminated.

5.2 If the Executive's employment shall be terminated due to a Qualifying Termination, the Company shall pay to the Executive within thirty (30) days following the Date of Termination (to the extent not previously paid), a lump sum amount equal to the sum of (i) the Executive's full base salary through the Date of Termination at the rate in effect immediately prior to the Date of Termination, or if higher, the rate in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason, (ii) the value of any annual bonus or cash incentive plan payment that would have been paid for service in the final calendar year of employment, as if 100% of target goals were achieved, but prorated by multiplying by a fraction equal to the number of full calendar months of service completed divided by 12, and (iii) the value of any Restricted Stock Units that would have been awarded for service in the final calendar year of employment, as if

100% of target goals were achieved, but prorated by multiplying by a fraction equal to the number of full calendar months of service completed divided by 12 together with all compensation and benefits payable to the Executive through the Date of Termination under the terms of the Company's compensation or benefit plans, programs or arrangements as in effect immediately prior to the Date of Termination, or if more favorable to the Executive, as in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason.

5.3 If the Executive's employment shall be terminated due to a Qualifying Termination, the Company shall pay to the Executive the Executive's normal post-termination compensation and benefits due the Executive as such payments become due (other than Severance Payments which will be paid exclusively pursuant to Section 6 below). Such post-termination compensation and benefits shall be determined under, and paid in accordance with, the Company's retirement, insurance and other compensation or benefit plans, programs and arrangements as in effect immediately prior to the Date of Termination or, if more favorable to the Executive, as in effect immediately prior to the occurrence of the first event or circumstance constituting Good Reason including such plans' payment timing rules.

6. Severance Payments .

6.1 The Company shall pay the Executive the payments, and provide the Executive the benefits, described in Section 6.2 (the "Severance Payments") upon a Qualifying Termination.

6.2 The following shall constitute the Severance Payments under this Agreement:

(A) In lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination and in lieu of any severance benefit otherwise payable to the Executive including any payments under the Company's Separation Policy (GP401) or any similar plan, policy or procedure or arrangement, if eligible, or the Executive's Prior Severance Agreement or any employment agreement or arrangement between the Executive and the Company, to the extent provided in Section 11 of this Agreement, the Company shall pay to the Executive a lump sum severance payment, in cash, equal to three times the sum of (i) the Executive's base salary as in effect immediately prior to the Date of Termination or, if higher, in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason, and (ii) the average of annual cash bonuses earned by the Executive pursuant to any annual bonus or annual incentive plan maintained by the Company in respect of the last three fiscal years ending immediately prior to the fiscal year in which occurs the Date of Termination or, if higher, immediately prior to the fiscal year in which occurs the first event or circumstance constituting Good Reason (including as an amount so paid any amount that would have been paid but for the Executive's deferral of the amount). For purposes of determining the value of the annual bonus earned by the Executive in any fiscal year, the value of any restricted stock awards or stock options earned by the Executive in any such year shall not be included in the value of the annual bonus for such year;

(B) The Company shall pay to the Executive a lump sum amount, in cash, equal to the aggregate amount of COBRA premiums otherwise payable by Executive (based upon the COBRA rate in effect on the date of such termination of employment) for the twenty-four (24) month period immediately following the Date of Termination (assuming for this purpose that COBRA continuation coverage would have been available for such twenty-four (24) month period).

(C) Notwithstanding any provision of any annual or long-term incentive plan to the contrary, the Company shall pay to the Executive a lump sum amount, in cash, equal to the sum of (i) any unpaid cash-based incentive compensation that has been allocated or awarded to the Executive for a completed fiscal year or other measuring period preceding the Date of Termination under any such plan and which, as of the Date of Termination, is contingent only upon the continued employment of the Executive to a subsequent date, and (ii) to the extent not otherwise paid or deferred at the Executive's election, pursuant to the terms of the applicable plan, a pro rata portion to the Date of Termination of the aggregate value of all contingent cash-based incentive compensation awards to the Executive for all then uncompleted periods under any such plan, calculated as to each such award by multiplying the award that the Executive would have earned on the last day of the performance award period, assuming the achievement, at the actual level of performance as of the date of Change in Control (or, if not determinable at such date, as of the end of the quarter preceding such date), of the individual and corporate performance goals established with respect to such award, by the fraction obtained by dividing the number of full months and any fractional portion of a month during such performance award period through the Date of Termination by the total number of months contained in such performance award period.

(D) If the Executive would have become entitled to benefits under the Company's post-retirement health care or life insurance plans, as in effect immediately prior to the Date of Termination or, if more favorable to the Executive, as in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason, had the Executive's employment terminated at any time during the period of twenty-four (24) months after the Date of Termination, the Company shall provide such post-retirement health care or life insurance benefits to the Executive and the Executive's dependents commencing on the date on which such coverage would have first become available.

(E) The Company shall provide the Executive with outplacement services suitable to the Executive's position until December 31 of the second calendar year following the year in which Executive's employment with the Company terminates or, if earlier, until the first acceptance by the Executive of an offer of employment, but limited to total outplacement fees of $50,000.

6.3 (A) Notwithstanding any other provisions of this Agreement, in the event that any payment or benefit received or to be received by the Executive in connection with a Change in Control or the termination of the Executive's employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any Person whose actions result in a Change in Control or any Person affiliated with the Company or such Person) (all such payments and benefits, including the Severance Payments, being hereinafter called "Total Payments") would be subject (in whole or part), to the Excise Tax, then the cash Severance Payments shall be reduced (if necessary to zero) to the extent necessary so that no portion of the Total Payments is subject to the Excise Tax (after taking into account any reduction in the Total Payments provided by reason of section 280G of the Code in such other plan, arrangement or agreement) and all other Severance Payments shall thereafter be reduced (if necessary, to zero) so that no portion of the Total Payments is subject to the Excise Tax, if, but only if, (i) the net amount of such Total Payments, as so reduced, (and after deduction of the net amount of federal, state and local income tax on such reduced Total Payments) is greater than (ii) the excess of (a) the net amount of such Total Payments, without reduction (but after deduction of the net amount of federal, state and local income tax on such Total Payments), over (b) the amount of Excise Tax to which the Executive would be subject in respect of such Total Payments (the "Cut-Back Condition").

Such reduction shall apply first to the cash payments provided under Section 6.2(A) and thereafter shall apply on a pro-rata basis to other payments in a manner that complies with Section 409A of the Code.

(B) For purposes of determining whether and the extent to which the Total Payments will be subject to the Excise Tax and whether the Cut-Back Condition will be satisfied, (i) no portion of the Total Payments the receipt or enjoyment of which the Executive shall have waived at such time and in such manner as not to constitute a "payment" within the meaning of section 280G(b) of the Code shall be taken into account, (ii) no portion of the Total Payments shall be taken into account which, in the opinion of tax counsel selected by the accounting firm that was, immediately prior to the Change in Control, the Company's independent auditor (the "Auditor"), does not constitute a "parachute payment" within the meaning of section 280G(b)(2) of the Code, (including by reason of section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax and determining whether the Cut-Back Condition is satisfied, no portion of such Total Payments shall be taken into account which constitutes reasonable compensation for services actually rendered, within the meaning of section 280G(b)(4)(B) of the Code, in excess of the Base Amount allocable to such reasonable compensation, and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Auditor in accordance with the principles of sections 280G(d)(3) and (4) of the Code. Prior to the payment date set forth in Section 6.3 hereof, the Company shall provide the Executive with its calculation of the amounts referred to in this Section and such supporting materials as are reasonably necessary for the Executive to evaluate the Company's calculations. If the Executive objects to the Company's calculations, the Company shall pay to the Executive (as such time or times otherwise provided by this Agreement) such portion of the Severance Payments (up to 100% thereof) as the Executive determines is necessary to result in the Executive receiving the greater of clauses (i) and (ii) of Section 6.2(A) hereof.

(C) If it is established pursuant to a final determination of a court or an Internal Revenue Service proceeding that, notwithstanding the good faith of the Executive and the Company in applying the terms of this Section 6.2, the Total Payments paid to or for the Executive's benefit are in an amount that would result in any portion of such Total Payments being subject to the Excise Tax, then, if such repayment would result in satisfaction of the Cut-Back Condition, the Executive shall have an obligation to pay the Company upon demand an amount equal to the sum of (i) the excess of the Total Payments paid to or for the Executive's benefit over the Total Payments that could have been paid to or for the Executive's benefit without any portion of such Total Payments being subject to the Excise Tax; and (ii) interest on the amount set forth in clause (i) of this sentence at the rate provided in section 1274(b)(2)(B) of the Code from the date of the Executive's receipt of such excess until the date of such payment.

6.4 The payments provided in subsection 6.2(A), (B), (C) and (D) hereof and Section 6.3 hereof shall be made on the first day of the seventh month following the Date of Termination provided, however, that if the amounts of such payments cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined in good faith by the Executive, or, in the case of payments under Section 6.2 hereof, in accordance with Section 6.2 hereof, of the minimum amount of such payments to which the Executive is clearly entitled and shall pay the remainder of such payments (together with interest on the unpaid remainder (or on all such payments to the extent the Company fails to make such payments when due) at 120% of the rate provided in section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined but in no event later than the thirtieth (30th) day after the last day of the seventh month following the Date of Termination. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth (5th) business day after demand by the Company (together with interest at 120% of the rate provided in section 1274(b)(2)(B) of the Code). At the time that payments are made under this Agreement, the Company shall provide the Executive with a written statement setting forth the manner in which such payments were calculated and the basis for such calculations including, without limitation, any opinions or other advice the Company has received from Tax Counsel, the Auditor or other advisors or consultants (and any such opinions or advice which are in writing shall be attached to the statement).

6.5 The Company also shall pay to the Executive all legal fees and expenses incurred by the Executive in disputing in good faith any issue hereunder relating to the termination of the Executive's employment hereunder with respect to which Executive substantially prevails or in seeking in good faith to obtain or enforce any benefit or right provided by this Agreement with respect to which Executive substantially prevails or in connection with any tax audit or proceeding to the extent attributable to the application of section 4999 of the Code to any payment or benefit provided hereunder. Such payments shall be made within five (5) business days after delivery of the Executive's written requests for payment accompanied with such evidence of fees and expenses incurred as the Company reasonably may require (and Executive shall submit such requests for payment no later than 60 days after such expenses are incurred).

7. Termination Procedures.

7.1 Notice of Termination. After a Change in Control (or during a Potential Change in Control Period) and during the Term, any purported termination of the Executive's employment (other than by reason of death) shall be communicated by written Notice of Termination from one party hereto to the other party hereto in accordance with Section 10 hereof (delivered at least 30 days prior to the Date of Termination in the case of a termination by the Executive). For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. Further, a Notice of Termination for Cause is required to include a copy of a resolution duly adopted by the affirmative vote of not less than a majority of the Board at a meeting of the Board which was called and held for the purpose of considering such termination (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive's counsel, to be heard before the Board) finding that, in the good faith opinion of the Board, the Executive was guilty of conduct set forth in clause (i) or (ii) of the definition of Cause herein, and specifying the particulars thereof in detail.

7.2 Date of Termination. "Date of Termination," with respect to any purported termination of the Executive's employment after a Change in Control and during the Term, shall mean the date of the Executive’s "separation from service" within the meaning of Section 409A of the Code. In the event of an Anticipatory Termination, the Date of Termination shall be deemed to be the date of the subsequent occurrence of the Change in Control.

8. No Mitigation. The Company agrees that, if the Executive's employment with the Company terminates during the Term, the Executive is not required to seek other employment or to attempt in any way to reduce any amounts payable to the Executive by the Company pursuant to Section 6 or Section 7.4 hereof. Further, the amount of any payment or benefit provided for in this Agreement shall not be reduced by any compensation earned by the Executive as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Executive to the Company, or otherwise.

9. Successors; Binding Agreement.

9.1 Unless otherwise assumed by operation of law, the Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

9.2 This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive shall die while any amount would still be payable to the Executive hereunder (other than amounts which, by their terms, terminate upon the death of the Executive) if the Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the executors, personal representatives or administrators of the Executive's estate.

10. Notices. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed, to the Executive at the last known address maintained in the Company's personnel records, and to the Company, to the address set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon actual receipt:

To the Company:

PPL Corporation
Two North Ninth Street
Allentown, Pennsylvania 18101
Attention: Corporate Secretary

11. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or any lack of compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. This Agreement supersedes any other agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof, which have been made by either party, including but not limited to, the Prior Severance Agreement; provided, however, that this Agreement shall supersede any agreement setting forth the terms and conditions of the Executive's employment with the Company only in the event that the Executive's employment with the Company is terminated during the Term in connection with a Qualifying Termination. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the Commonwealth of Pennsylvania. All references to sections of the Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law and any additional withholding to which the Executive has agreed. The obligations of the Company and the Executive under this Agreement that by their nature may require either partial or total performance after the expiration of the Term (including, without limitation, those under Sections 6 and 7 hereof) shall survive such expiration.

12. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

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

14. Settlement of Disputes; Arbitration. The Board shall make all determinations as to the Executive's right to benefits under this Agreement. Any denial by the Board of a claim for benefits under this Agreement shall be stated in writing and delivered or mailed to the Executive and such notice shall set forth the specific reasons for the denial and the specific provisions of this Agreement relied upon, and

shall be written in a manner that may be understood without legal or actuarial counsel. In addition, the Board shall afford a reasonable opportunity to the Executive for a review of the decision denying the Executive's claim and, in the event of continued disagreement, the Executive may appeal within a period of 60 days after receipt of notification of denial. Failure to perfect an appeal within the 60-day period shall make the decision conclusive. Any further dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Philadelphia, Pennsylvania in accordance with the rules of the American Arbitration Association then in effect; provided, however, that the evidentiary standards set forth in this Agreement shall apply. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

15. Section 409A of the Code .

(A) Although the Company does not guarantee to the Executive any particular tax treatment relating to the payments and benefits under this Agreement, it is intended that such payments and benefits be exempt from, or comply with, Section 409A of the Code and the regulations and guidance promulgated thereunder (collectively "Code Section 409A"), and all provisions of this Agreement shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Code Section 409A. Notwithstanding any provision herein to the contrary, in no event shall the Company be liable for, or be required to indemnify the Executive for, any liability of the Executive for taxes or penalties under Code Section 409A.

(B) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a “termination,” “termination of employment” or like terms shall mean "separation from service."

(C) With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Code Section 409A, (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit; (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year, provided, that the foregoing clause (ii) shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period the arrangement is in effect; and (iii) such payments shall be made on or before the last day of the Executive’s taxable year following the taxable year in which the expense was incurred.

(D) Whenever a payment under this Agreement specifies a payment period with reference to a number of days (e.g., "payment shall be made within ten (10) days following the date of termination"), the actual date of payment within the specified period shall be within the sole discretion of the Company.

(E) If under this Agreement, an amount is to be paid in two or more installments, for purposes of Code Section 409A, each installment shall be treated as a separate payment.

(F) Notwithstanding anything herein to the contrary, if the Executive is, as of the date of termination, a "specified employee" for purposes of Treas. Reg. § 1.409A-1(i), then any amount of deferred compensation that is payable to the Executive hereunder that is neither a short-term deferral within the meaning of Treas. Reg. § 1.409A-1(b)(4) nor within the involuntary separation pay limit under Treas. Reg. § 1.409A-1(b)(9)(iii)(A) will not be paid before the date that is six months after the date of termination, or if earlier, the date of the Executive’s death. Any payments to which the Executive would otherwise be entitled during such non-payment period will be accumulated and paid or otherwise provided to the Executive on the first day of the seventh month following such date of termination, or if earlier, within 30 days of the Executive’s death to his or her surviving spouse (or to the Executive’s estate if the Executive’s spouse does not survive the Executive.)

16. Definitions . For purposes of this Agreement, the following terms shall have the meanings indicated below:

(A) "Act" shall mean the Securities Exchange Act of 1934, as amended, or any successor statute thereto.

(B) "Affiliate" shall mean, with respect to any Person, any other Person, directly or indirectly, controlling, controlled by, or under common control with such Person or any other Person designated by the Committee in which any Person has an interest.

(C) "Anticipatory Termination" shall mean if (A) the Executive's employment is terminated by the Company without Cause prior to a Change in Control and such termination was at the request or direction of a Person who has entered into an agreement with the Company the consummation of which would constitute a Change in Control and such Change in Control ultimately occurs or (B) if the Executive terminates his employment for Good Reason prior to a Change in Control and the circumstance or event which constitutes Good Reason occurs at the request or direction of a Person who has entered into an agreement with the Company the consummation of which would constitute a Change in Control and such Change in Control ultimately occurs (each such termination described in clauses (A) and (B) being deemed to constitute a Qualifying Termination).

(D) "Base Amount" shall have the meaning set forth in section 280G(b)(3) of the Code.

(E) "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act.

(F) "Board" shall mean the Board of Directors of the Company.

(G) "Cause" for termination by the Company of the Executive's employment shall mean (i) the willful and continued failure by the Executive to substantially perform the Executive's duties with the Company (other than any such failure resulting from the Executive's incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive pursuant to Section 7.1 hereof) after a written demand for substantial performance is delivered to the Executive by the Board, which demand specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive's duties, or (ii) the willful engaging by the Executive in conduct which is demonstrably and materially injurious to the Company or its subsidiaries, monetarily or otherwise. For purposes of clauses (i) and (ii) of this definition, (a) no act, or failure to act, on the Executive's part shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's act, or failure to act, was in the best interest of the Company, and (b) in the event of a dispute concerning the application of this provision, no claim by the Company that Cause exists shall be given effect unless the Company establishes to the Board by clear and convincing evidence that Cause exists.

(H) "Change in Control" means the occurrence of any one of the following events:

(i) any Person or Group is or becomes the "beneficial owner" (as defined in rules 13d-3 and 13d-5 under the Act) directly or indirectly of more than 30% of the total voting power of the voting stock of the Company (or any entity which controls the Company) within a 12-month period, including by way of merger, consolidation, tender or exchange offer, or otherwise;

(ii) a reorganization, recapitalization, merger or consolidation (a "Corporate Transaction") involving the Company, unless securities representing 70% or more of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the Company or the corporation resulting from such Corporate Transaction (or the parent of such corporation) are held subsequent to such transaction by the Person or Persons who were the "beneficial owners" of the outstanding voting securities entitled to vote generally in the election of directors of the Company immediately prior to such Corporate Transaction, in substantially the same proportions as their ownership immediately prior to such Corporate Transaction;

(iii) the sale or disposition, in one or a series of related transactions, of all or substantially all, of the assets of the Company to any Person or Group; or

(iv) during any period of 12 months, individuals who at the beginning of such period constituted the Board (together with any new directors whose election by such Board or whose nomination for election by the shareowners of the Company was approved by a vote of a majority of the directors of the Company, then still in office, who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board, then in office.

(I) "Code" shall mean the Internal Revenue Code of 1986, as amended, or any successor thereto, and the regulations and guidance promulgated thereunder.

(J) "Company" shall mean PPL Corporation and, except in determining, under Section 15(E) hereof, whether or not any Change in Control of the Company has occurred in connection with such succession, shall include its subsidiaries and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise. For purposes of this Agreement, the Executive's employment by (including termination of such employment) and compensation from any subsidiary of the Company shall be deemed employment by and compensation from the Company.

(K) "Date of Termination" shall have the meaning set forth in Section 7.2 hereof.

(L) "Disability" shall be deemed the reason for the termination by the Company of the Executive's employment, if, as a result of the Executive's incapacity due to physical or mental illness, the Executive shall have been absent from the full-time performance of the Executive's duties with the Company for a period of six (6) consecutive months, the Company shall have given the Executive a Notice of Termination for Disability, and, within thirty (30) days after such Notice of Termination is given, the Executive shall not have returned to the full-time performance of the Executive's duties.

(M) "Excise Tax" shall mean any excise tax imposed under section 4999 of the Code.

(N) "Executive" shall mean the individual named in the first paragraph of this Agreement.

(O) "Good Reason" for termination of the Executive's employment with the Company by such Executive shall mean the occurrence (without the Executive's express written consent which specifically references this Agreement) after a Change in Control or during a Potential Change in Control Period (treating all references in paragraphs (I) through (VII) below to a "Change in Control" as references to a "Potential Change in Control"), of any one of the following acts by the Company, or failures by the Company to act, unless, in the case of any act or failure to act described below, the Company gives notice to the Executive that it will correct, and within 30 days does so correct such act or failure to act:

(I) the assignment to the Executive of any duties inconsistent with the Executive's status as an executive officer or key employee of the Company or a substantial adverse alteration in the nature or status of the Executive's responsibilities from those in effect immediately prior to a Change in Control;

(II) a reduction by the Company of the Executive's annual base salary as in effect on the date of this Agreement, or as the same may be increased from time to time, except for across-the-board decreases uniformly affecting management, key employees and salaried employees of the Company or the business unit in which the Executive is then employed;

(III) the relocation of the Executive's principal work location to a location more than 30 miles from the vicinity of such work location immediately prior to a Change in Control or the Company's requiring the Executive to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on the Company's business to an extent substantially consistent with the Executive's present business travel obligations;

(IV) the failure by the Company to pay to the Executive any portion of the Executive's current compensation or to pay to the Executive any portion of an installment of deferred compensation under any deferred compensation program of the Company, within seven (7) days of the date such compensation is due, except for across-the-board compensation deferrals uniformly affecting management, key employees and salaried employees of the Company or the business unit in which the Executive is then employed;

(V) the failure by the Company to continue in effect any compensation or benefit plan in which the Executive participates immediately prior to a Change in Control which is material to the Executive's total compensation, or any substitute plans adopted prior to a Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Executive's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount or timing of payment of benefits provided and the level of the Executive's participation relative to other participants, as existed immediately prior to the Change in Control;

(VI) the failure by the Company to continue to provide the Executive with benefits substantially similar to those enjoyed by the Executive under any of the Company's pension, savings, life insurance, medical, health and accident, or disability plans in which the Executive was participating immediately prior to a Change in Control, except for across-the-board changes to any such plans uniformly affecting all participants in such plans, the taking of any other action by the Company which would directly or indirectly materially reduce any of such benefits or deprive the Executive of any material fringe benefit enjoyed by the Executive at the time of the Change in Control, or the failure by the Company to provide the Executive with the number of paid vacation days to which the Executive is entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy at the time of the Change in Control; or

(VII) the failure of the Company to comply with the provisions of Section 9.1;

in each case described in clauses (I)-(VII) which is not cured by the Company within 30 days following written notice from Executive to the Company.

The Executive's right to terminate his or her employment with the Company for Good Reason shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

(P) "Group" shall mean "group" as such term is uses for purposes of Section 13(d) or 14(d) of the Act.

(Q) "Notice of Termination" shall have the meaning stated in Section 7.1 hereof.

(R) "Pension Plan" shall mean any tax-qualified, supplemental or excess defined benefit pension plan maintained by the Company and any other agreement entered into between the Executive and the Company which is designed to provide the Executive with supplemental retirement benefits.

(S) "Person" shall have the meaning given in Section 3(a)(9) of the Act, as modified and used in Sections 13(d) and 14 (d) thereof; provided, however, a Person shall not include (i) the Company or any of its Affiliates, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the shareowners of the Company in substantially the same proportions as their ownership of stock of the Company.

(T) "Potential Change in Control" shall be deemed to have occurred if the conditions or events set forth in any one of the following paragraphs shall have been satisfied or shall have occurred:

(I) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control;

(II) the Company or any Person publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control;

(III) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 5% or more of the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors.

Notwithstanding the foregoing, a "Potential Change in Control" shall not be deemed to occur if (i) a Person acquired such beneficial ownership of 5% or more of the Company's outstanding common shares but less than 20% and such Person has reported or is required to report such ownership on Schedule 13G under the Act (or any comparable or successor report); (ii) a Person acquired such beneficial ownership of 5% or more of the Company's outstanding common shares and such Person has reported or is required to report such ownership under Schedule 13D under the Act (or any comparable or successor report), which Schedule 13D does not state any intention to or reserve the right to control or influence the management or policies of the Company or engage in any of the actions specified in Item 4 of such Schedule (other than the disposition of the common shares) and, within 10 business days of being requested by the Company to advise it regarding the same, certifies to the Company that such Person acquired common shares amounting to 5% or more of the Company's outstanding common shares inadvertently and who or which, together with all Affiliates thereof, thereafter does not acquire additional common shares while the Beneficial Owner, as such term is defined in or used by Regulation 13D-G as promulgated under the Act, of 5% or more of the common shares then outstanding; provided, however, that if the Person requested to so certify fails to do so within 10 business days, then a Potential Change in Control shall be deemed to have occurred immediately after such 10-Business-Day period; or (iii) any Person who becomes the Beneficial Owner of 5% or more of the common shares then outstanding due to the repurchase of common shares by the Company unless and until such Person, after becoming aware that such Person has become the Beneficial Owner of 5% or more of the common shares then outstanding, acquires beneficial ownership of additional common shares representing 1% or more of the common shares then outstanding.

(U) "Potential Change in Control Period" shall mean the period commencing on the occurrence of a Potential Change in Control and ending upon the occurrence of a Change in Control or, if earlier (i) with respect to a Potential Change in Control occurring pursuant to clause (I) of such definition, immediately upon the abandonment or termination of the applicable agreement, (ii) with respect to a Potential Change in Control occurring pursuant to clause (II) of such definition, immediately upon a public announcement by the applicable party that such party has abandoned its intention to take or consider taking actions which if consummated would result in a Change in Control or (iii) with respect to a Potential Change in Control occurring pursuant to clause (III) of such definition, upon the one year anniversary of the occurrence of such Potential Change in Control (or such earlier date as may be determined by the Board).

(V) "Qualifying Termination" shall mean an Anticipatory Termination or a termination of Executive’s employment following a Change in Control and during the Term either (i) by the Company without Cause or (ii) by the Executive for Good Reason (which, for the avoidance of doubt, shall not include any termination of Executive’s employment (x) by the Company for Cause, (y) by Executive without Good Reason or (z) due to Executive’s death or Disability).

(W) "Retirement" shall be deemed the reason for the termination by the Executive of the Executive's employment if such employment is terminated in accordance with the Company's retirement policy, including early retirement, generally applicable to its salaried employees.

(X) "Severance Payments" shall have the meaning set forth in Section 6.1 hereof.

(Y) "Term" shall mean the period of time described in Section 2 hereof (including any extension, continuation or termination described therein).

(Z) "Total Payments" shall mean those payments described in Section 6.3 hereof.

PPL CORPORATION

By ______________________________ ______________________________
William H. Spence Date
President and Chief Executive Officer

______________________________ ______________________________
Gregory N. Dudkin Date

COMMITMENT INCREASE AGREEMENT

(Commitment Increase Pursuant to Section 2.19 of Credit Agreement)

This **COMMITMENT INCREASE AGREEMENT** (this " ***Agreement*** ") dated as of April 20, 2012 (the " ***Increase Effective Date*** "), is entered into by and among **PPL ELECTRIC UTILITIES CORPORATION.** , a Pennsylvania corporation (" ***Borrower*** "), the undersigned Lenders (as defined in the Credit Agreement) who are increasing their Commitments (as defined in the Credit Agreement) (collectively, the " ***Increasing Lenders*** "), the undersigned JLA Issuing Banks, who are consenting to the increase in Fronting Sublimit, and **WELLS FARGO BANK, NATIONAL ASSOCIATION** , as Administrative Agent (in such capacity, the " ***Administrative Agent*** "), Swingline Lender and Issuing Lender. Capitalized terms used herein and not otherwise defined herein shall have the meanings attributed to them in the Credit Agreement (as hereinafter defined).

RECITALS

A. Borrower, the Increasing Lenders, the JLA Issuing Banks, certain other financial institutions, and the Administrative Agent are parties to that certain Revolving Credit Agreement dated as of December 31, 2010 (as amended, restated, or otherwise modified from time to time, the " ***Credit Agreement*** ").

B. Pursuant to Section 2.19 of the Credit Agreement, this Agreement is being executed to evidence Borrower's requested increase in the aggregate Commitments from $200,000,000 to $300,000,000, and to approve a corresponding increase to the Fronting Sublimit.

C. Each of the undersigned Increasing Lenders has agreed to increase its Commitment in accordance with Schedule I hereto, and each of the undersigned JLA Issuing Banks has agreed to a corresponding increase in the Fronting Sublimit.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Increase in Commitments of Increasing Lenders. Effective as of the Increase Effective Date, each Increasing Lender identified on Schedule 1 agrees that its Commitment shall be in the amount set forth on Schedule 1.

2. Conditions Precedent to Effectiveness. This Agreement shall be effective as of the Increase Effective Date, provided that: (a) Administrative Agent shall have received (i) counterparts of this Agreement, executed by Borrower, each Increasing Lender and each JLA Issuing Bank, (ii) a Notice of Revolving Increase, (iii) to the extent required by any Increasing Lender, a Note; and (b) Borrower shall have paid all fees and expenses that are required to be paid as of the Increase Effective Date.

3. Changes in Commitment Ratios. On the Increase Effective Date, the Commitment Ratio of the Lenders shall be redetermined giving effect to the adjustments to the Commitments referred to in Section 1, and the participations of the Lenders in and the obligations of the Lenders in respect of any Letters of Credit outstanding on the Increase Effective Date shall be reallocated to reflect such redetermined Commitment Ratio.

4. Consent of JLA Issuing Banks. By signing this Agreement, each JLA Issuing Bank hereby agrees that the increase in Commitments effected pursuant to Section 1 above shall be included for the purpose of calculating the Fronting Sublimit for each JLA Issuing Bank.

5. Miscellaneous. (a) Headings and captions may not be construed in interpreting provisions; (b) this Agreement shall be governed by, and construed in accordance with, the law of the State of New York; and (c) this Agreement may be executed in any number of counterparts with the same effect as if all signatories had signed the same document, and all of those counterparts must be construed together to constitute the same document.

6. ENTIRE AGREEMENT. THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS, TOGETHER WITH THIS AGREEMENT, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF , the parties hereto have caused this Agreement to be duly executed as of the date first above written.

PPL ELECTRIC UTILITIES CORPORATION,
a Pennsylvania corporation
By: /s/
Name Russell R. Clelland
Title: Assistant Treasurer

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Administrative Agent
By: /s/
Name Keith Luettel
Title: Vice President

WELLS FARGO BANK, NATIONAL ASSOCIATION , as Increasing Lender and JLA Issuing Bank

By: /s/
Name Keith Luettel
Title: Vice President

BANK OF AMERICA, N.A. , as Increasing Lender and JLA Issuing Bank

By: /s/
Name Mike Mason
Title: Director

THE ROYAL BANK OF SCOTLAND PLC, as Increasing Lender and JLA Issuing Bank

By: /s/
Name Tyler J. McCarthy
Title: Director

CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH, as Increasing Lender and JLA Issuing Bank

By: /s/
Name Mikhail Faybusovich
Title: Director

By: /s/
Name Kevin Buddhdew
Title: Associate

THE BANK OF NOVA SCOTIA, as Increasing Lender

By: /s/
Name Brenda S. Insull
Title: Authorized Signatory

UNION BANK, N.A., as Increasing Lender

By: /s/
Name Y. Joanne Si
Title: Vice President

BARCLAYS BANK PLC, as Increasing Lender

By: /s/
Name Michael Mozer
Title: Vice President

BNP PARIBAS, as Increasing Lender

By: /s/
Name Pasquale A. Perraglia IV
Title: Vice President

By: /s/
Name Claudia Zarate
Title: Director

CITIBANK, N.A., as Increasing Lender

By: /s/
Name Anita J. Brickell
Title: Vice President

JPMORGAN CHASE BANK, N.A. , as Increasing Lender

By: /s/
Name Juan Javellana
Title: Executive Director

MORGAN STANLEY BANK, N.A., as Increasing Lender

By: /s/
Name Michael King
Title: Authorized Signatory

ROYAL BANK OF CANADA, as Increasing Lender

By: /s/
Name Kyle E. Hoffman
Title: Authorized Signatory

UBS LOAN FINANCE LLC, as Increasing Lender

By: /s/
Name Mary E. Evans
Title: Associate Director

By: /s/
Name Joselin Fernandes
Title: Associate Director

GOLDMAN SACHS BANK USA, as Increasing Lender

By: /s/
Name Mark Walton
Title: Authorized Signatory

SCHEDULE 1

COMMITMENTS AND APPLICABLE PERCENTAGES

LENDERS		**COMMITMENT** [1]
Wells Fargo Bank, National Association	$	19,750,000
Bank of America, N.A.		19,750,000
The Royal Bank of Scotland plc		19,750,000
Credit Suisse AG, Cayman Islands Branch		16,000,000
The Bank of Nova Scotia		16,000,000
Union Bank, N.A.		11,250,000
Barclays Bank PLC		16,000,000
BNP Paribas		16,000,000
Citibank, N.A.		16,000,000
JPMorgan Chase Bank, N.A.		16,000,000
Morgan Stanley Bank, N.A.		16,000,000
Royal Bank of Canada		16,000,000
UBS Loan Finance LLC		16,000,000
Goldman Sachs Bank USA		16,000,000
Total	$	230,500,000

[1] Note: this is the aggregate commitment giving effect to the increase.

Exhibit 12(a)

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	3 Months Ended March 31, 2012	Years Ended December 31, 2011	2010	2009	2008	2007
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	**$ 804**	$ 2,201	$ 1,239	$ 538	$ 1,273	$ 1,230
Adjustments to reflect earnings from equity method investments on a cash basis		1	7	1		2
	804	2,202	1,246	539	1,273	1,232
Total fixed charges as below	**262**	1,022	698	513	568	609
Less:						
Capitalized interest	**14**	51	30	43	57	55
Preferred security distributions of subsidiaries on a pre-tax basis	**6**	23	21	24	27	23
Interest expense and fixed charges related to discontinued operations		3	12	15	16	39
Total fixed charges included in Income from Continuing Operations Before Income Taxes	**242**	945	635	431	468	492
Total earnings	**$ 1,046**	$ 3,147	$ 1,881	$ 970	$ 1,741	$ 1,724
Fixed charges, as defined:						
Interest charges (a)	**$ 246**	$ 955	$ 637	$ 446	$ 518	$ 565
Estimated interest component of operating rentals	**10**	44	39	42	22	21
Preferred securities distributions of subsidiaries on a pre-tax basis	**6**	23	21	24	27	23
Fixed charges of majority-owned share of 50% or less-owned persons			1	1	1	
Total fixed charges (b)	**$ 262**	$ 1,022	$ 698	$ 513	$ 568	$ 609
Ratio of earnings to fixed charges	**4.0**	3.1	2.7	1.9	3.1	2.8
Ratio of earnings to combined fixed charges and preferred stock dividends (c)	**4.0**	3.1	2.7	1.9	3.1	2.8

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

(c) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

Exhibit 12(b)

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	3 Months Ended March 31,	Years Ended December 31,				
	2012	**2011**	**2010**	**2009**	**2008**	**2007**
Earnings, as defined:						
Income (Loss) from Continuing Operations Before Income Taxes	**$ 486**	$ 1,212	$ 881	$ (13)	$ 671	$ 785
Adjustments to reflect earnings from equity method investments on a cash basis		1	7	1		2
	486	1,213	888	(12)	671	787
Total fixed charges as below	**58**	259	426	364	390	388
Less:						
Capitalized interest	**13**	47	33	44	57	54
Interest expense and fixed charges related to discontinued operations		3	147	102	157	217
Total fixed charges included in Income (Loss) from Continuing Operations Before Income Taxes	**45**	209	246	218	176	117
Total earnings	**$ 531**	$ 1,422	$ 1,134	$ 206	$ 847	$ 904
Fixed charges, as defined:						
Interest charges (a)	**$ 50**	$ 223	$ 387	$ 321	$ 374	$ 374
Estimated interest component of operating rentals	**8**	36	38	42	15	14
Fixed charges of majority-owned share of 50% or less-owned persons			1	1	1	
Total fixed charges (b)	**$ 58**	**$ 259**	**$ 426**	**$ 364**	**$ 390**	**$ 388**
Ratio of earnings to fixed charges (c)	**9.2**	5.5	2.7	0.6	2.2	2.3

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

(c) In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. As a result, PPL Global's operating results were reclassified as Discontinued Operations. Upon reflecting this reclassification, earnings were less than fixed charges for 2009. See Note 9 in PPL Energy Supply's 2011 Form 10-K for additional information. The total amount of fixed charges for this period was approximately $364 million and the total amount of earnings was approximately $206 million. The amount of the deficiency, or the amount of fixed charges in excess of earnings, was approximately $158 million.

Exhibit 12(c)

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	3 Months Ended March 31, 2012	Years Ended December 31, 2011	2010	2009	2008	2007
Earnings, as defined:						
Income Before Income Taxes	**$ 57**	$ 257	$ 192	$ 221	$ 278	$ 246
Total fixed charges as below	**26**	105	102	121	114	143
Total earnings	**$ 83**	$ 362	$ 294	$ 342	$ 392	$ 389
Fixed charges, as defined:						
Interest charges (a)	**$ 25**	$ 102	$ 101	$ 120	$ 113	$ 139
Estimated interest component of operating rentals	**1**	3	1	1	1	4
Total fixed charges (b)	**$ 26**	$ 105	$ 102	$ 121	$ 114	$ 143
Ratio of earnings to fixed charges	**3.2**	3.4	2.9	2.8	3.4	2.7
Preferred stock dividend requirements on a pre-tax basis	**$ 6**	$ 21	$ 23	$ 28	$ 28	$ 27
Fixed charges, as above	**26**	105	102	121	114	143
Total fixed charges and preferred stock dividends	**$ 32**	$ 126	$ 125	$ 149	$ 142	$ 170
Ratio of earnings to combined fixed charges and preferred stock dividends	**2.6**	2.9	2.4	2.3	2.8	2.3

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
(b) Interest on unrecognized tax benefits is not included in fixed charges.

Exhibit 12(d)

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES

(Millions of Dollars)

	Successor			Predecessor			
	3 Months Ended Mar. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009	2008	2007
Earnings, as defined:							
Income from Continuing Operations Before Income Taxes	**$ 74**	$ 419	$ 70	$ 300	$ (1,235)	$ (1,536)	$ 332
Adjustment to reflect earnings from equity method investments on a cash basis	**2**	(1)		(4)	11		(5)
Loss on impairment of goodwill					1,493	1,806	
Mark to market impact of derivative instruments			2	(20)	(19)	34	
	76	418	72	276	250	304	327
Total fixed charges as below	**40**	153	25	158	186	199	170
Total earnings	**$ 116**	$ 571	$ 97	$ 434	$ 436	$ 503	$ 497
Fixed charges, as defined:							
Interest charges (a)	**$ 38**	$ 147	$ 24	$ 153	$ 176	$ 184	$ 155
Estimated interest component of operating rentals	**2**	6	1	5	5	5	4
Estimated discontinued operations interest component of rental expense					5	10	10
Preferred stock dividends							1
Total fixed charges	**$ 40**	$ 153	$ 25	$ 158	$ 186	$ 199	$ 170
Ratio of earnings to fixed charges	**2.9**	3.7	3.9	2.7	2.3	2.5	2.9

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

Exhibit 12(e)

LOUISVILLE GAS AND ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES

(Millions of Dollars)

	Successor			Predecessor			
	3 Months Ended Mar. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009	2008	2007
Earnings, as defined:							
Income Before Income Taxes	**$ 40**	$ 195	$ 29	$ 167	$ 142	$ 131	$ 179
Mark to market impact of derivative instruments			1	(20)	(20)	35	
	40	195	30	147	122	166	179
Total fixed charges as below	**11**	46	8	40	46	60	53
Total earnings	**$ 51**	$ 241	$ 38	$ 187	$ 168	$ 226	$ 232
Fixed charges, as defined:							
Interest charges (a)	**$ 11**	$ 44	$ 8	$ 38	$ 44	$ 58	$ 50
Estimated interest component of operating rentals		2		2	2	2	2
Preferred stock dividends							1
Total fixed charges	**$ 11**	$ 46	$ 8	$ 40	$ 46	$ 60	$ 53
Ratio of earnings to fixed charges	**4.6**	5.2	4.8	4.7	3.7	3.8	4.4

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

Exhibit 12(f)

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES

(Millions of Dollars)

	Successor			Predecessor			
	3 Months Ended Mar. 31, 2012	Year Ended Dec. 31, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009	2008	2007
Earnings, as defined:							
Income Before Income Taxes	**$ 60**	$ 282	$ 55	$ 218	$ 200	$ 226	$ 244
Adjustment to reflect earnings from equity method investments on a cash basis	**2**	(1)		(4)	11		(5)
Mark to market impact of derivative instruments					1	(1)	
	62	281	55	214	212	225	239
Total fixed charges as below	**18**	73	11	71	79	77	59
Total earnings	**$ 80**	$ 354	$ 66	$ 285	$ 291	$ 302	$ 298
Fixed charges, as defined:							
Interest charges (a)	**$ 17**	$ 70	$ 10	$ 69	$ 76	$ 74	$ 57
Estimated interest component of operating rentals	**1**	3	1	2	3	3	2
Total fixed charges	**$ 18**	$ 73	$ 11	$ 71	$ 79	$ 77	$ 59
Ratio of earnings to fixed charges	**4.4**	4.8	6.0	4.0	3.7	3.9	5.1

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

Exhibit 31(a)

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2012

/s/ William H. Spence
William H. Spence
Chairman, President and Chief Executive Officer
PPL Corporation

Exhibit 31(b)

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2012

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President and Chief Financial Officer
PPL Corporation

Exhibit 31(c)

CERTIFICATION

I, DAVID G. DECAMPLI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2012

/s/ David G. DeCampli
David G. DeCampli
President
PPL Energy Supply, LLC

Exhibit 31(d)

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2012

/s/ Paul A. Farr

Paul A. Farr
Executive Vice President
PPL Energy Supply, LLC

Exhibit 31(e)

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2012

/s/ Gregory N. Dudkin
Gregory N. Dudkin
President
PPL Electric Utilities Corporation

Exhibit 31(f)

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2012

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Chief Accounting Officer
PPL Electric Utilities Corporation

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2012

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
LG&E and KU Energy LLC

Exhibit 31(h)

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2012

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
LG&E and KU Energy LLC

Exhibit 31(i)

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2012

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
Louisville Gas and Electric Company

Exhibit 31(j)

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2012

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
Louisville Gas and Electric Company

Exhibit 31(k)

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2012

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
Kentucky Utilities Company

Exhibit 31(l)

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2012

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
Kentucky Utilities Company

Exhibit 32(a)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2012

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2012

/s/ William H. Spence
William H. Spence
Chairman, President and Chief Executive Officer
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(b)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2012

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2012

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President and Chief Financial Officer
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(c)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2012

In connection with the quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2012

/s/ David G. DeCampli
David G. DeCampli
President
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(d)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2012

In connection with the quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2012

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(e)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2012

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2012

/s/ Gregory N. Dudkin
Gregory N. Dudkin
President
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(f)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2012

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2012

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Chief Accounting Officer
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(g)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2012

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2012

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(h)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2012

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2012

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(i)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2012

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2012

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(j)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2012

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2012

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(k)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2012

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2012

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(l)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2012

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2012

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

LOUISVILLE GAS & ELECTRIC CO /KY/

FORM 10-Q
(Quarterly Report)

Filed 11/08/11 for the Period Ending 09/30/11

Address	220 W MAIN ST P O BOX 32030 LOUISVILLE, KY 40232
Telephone	5026272000
CIK	0000060549
SIC Code	4931 - Electric and Other Services Combined
Fiscal Year	12/31

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 2011

OR

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

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
1-11459	**PPL Corporation** (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-32944	**PPL Energy Supply, LLC** (Exact name of Registrant as specified in its charter) (Delaware) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-3074920
1-905	**PPL Electric Utilities Corporation** (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	**LG&E and KU Energy LLC** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	**Louisville Gas and Electric Company** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	**Kentucky Utilities Company** (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

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

PPL Corporation	Yes X	No ___
PPL Energy Supply, LLC	Yes X	No ___
PPL Electric Utilities Corporation	Yes X	No ___
LG&E and KU Energy LLC	Yes X	No ___
Louisville Gas and Electric Company	Yes X	No ___
Kentucky Utilities Company	Yes X	No ___

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

PPL Corporation	Yes X	No ___
PPL Energy Supply, LLC	Yes X	No ___
PPL Electric Utilities Corporation	Yes X	No ___
LG&E and KU Energy LLC	Yes X	No ___
Louisville Gas and Electric Company	Yes X	No ___
Kentucky Utilities Company	Yes X	No ___

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

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
PPL Corporation	[X]	[ ]	[ ]	[ ]
PPL Energy Supply, LLC	[ ]	[ ]	[X]	[ ]
PPL Electric Utilities Corporation	[ ]	[ ]	[X]	[ ]
LG&E and KU Energy LLC	[ ]	[ ]	[X]	[ ]
Louisville Gas and Electric Company	[ ]	[ ]	[X]	[ ]
Kentucky Utilities Company	[ ]	[ ]	[X]	[ ]

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

PPL Corporation	Yes ___	No X
PPL Energy Supply, LLC	Yes ___	No X
PPL Electric Utilities Corporation	Yes ___	No X
LG&E and KU Energy LLC	Yes ___	No X
Louisville Gas and Electric Company	Yes ___	No X
Kentucky Utilities Company	Yes ___	No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PPL Corporation	Common stock, $.01 par value, 578,298,607 shares outstanding at October 31, 2011.
PPL Energy Supply, LLC	PPL Corporation indirectly holds all of the membership interests in PPL Energy Supply, LLC.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at October 31, 2011.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at October 31, 2011.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at October 31, 2011.

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

PPL CORPORATION
PPL ENERGY SUPPLY, LLC
PPL ELECTRIC UTILITIES CORPORATION
LG&E AND KU ENERGY LLC
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2011

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This combined Form 10-Q is separately filed by the following individual registrants: PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual registrant is filed by such registrant solely on its own behalf, and no registrant makes any representation as to information relating to any other registrant, except that information under "Forward-Looking Information" relating to PPL Corporation subsidiaries is also attributed to PPL Corporation and information relating to the subsidiaries of LG&E and KU Energy LLC is also attributed to LG&E and KU Energy LLC.

GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its current and former subsidiaries

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

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

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

LG&E and KU Services Company - LG&E and KU Services Company (formerly E.ON U.S. Services Inc.), a subsidiary of LKE that provides services for LKE and its subsidiaries.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

WPD - refers to PPL WW and PPL WEM and their subsidiaries.

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

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

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

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

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

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

Other terms and abbreviations

£ - British pounds sterling.

2001 Mortgage Indenture - PPL Electric's Indenture, dated as of August 1, 2001, to The Bank of New York Mellon (as successor to JPMorgan Chase Bank), as trustee, as supplemented.

2010 Bridge Facility - an up to $6.5 billion Senior Bridge Term Loan Credit Agreement between PPL Capital Funding, as borrower, and PPL, as guarantor, and a group of banks syndicated in June 2010, to serve as a funding backstop in the event alternative financing was not available prior to the closing of PPL's acquisition of E.ON U.S.

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

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

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

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

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

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

2011 Registration Statement(s) - refers to the registration statements on Form S-4 filed with the SEC by each of LKE (Registration No. 333-173665) on April 21, 2011, LG&E (Registration No 333-173676) on April 22, 2011 and KU (Registration No. 333-173675) on April 22, 2011, each as amended by Amendment No. 1 filed with the SEC on May 26, 2011 and effective June 1, 2011.

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

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

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

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

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

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

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

Bcf - billion cubic feet.

CAIR - the EPA's Clean Air Interstate Rule.

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

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

CPCN - Certificate of Public Convenience and Necessity. A license given to a public utility by the KPSC to build and own transmission and other gas and electricity infrastructure.

CSAPR - Cross State Air Pollution Rule, the CSAPR implements Clean Air Act requirements concerning the transport of air pollution from power plants across state boundaries. The CSAPR replaces the 2005 CAIR, which the U.S. Court of Appeals for the D.C. Circuit ordered the EPA to revise in 2008. The court allowed CAIR to remain in place temporarily while the EPA worked to finalize the replacement rule.

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

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

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

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

DRIP - Dividend Reinvestment and Direct Stock Purchase Plan.

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM plans proposed by any utility under its jurisdiction. Proposed DSM mechanisms may seek full recovery of DSM programs and revenues lost by implementing those programs and/or incentives designed to provide financial rewards to the utility for implementing cost-effective DSM programs. The cost of such programs shall be assigned only to the class or classes of customers which benefit from the programs.

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

EMF - electric and magnetic fields.

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

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

EPS - earnings per share.

Equity Units - refers collectively to the 2011 and 2010 Equity Units.

ESOP - Employee Stock Ownership Plan.

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

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

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

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

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

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

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

GBP - British pound sterling.

GHG - greenhouse gas(es).

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

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

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

IRP - Integrated Resource Plan. Pursuant to Kentucky Administrative Regulation 807 5:058, Kentucky electric utilities are required to file triennially an IRP with the KPSC. The filing is to provide the utilities' load forecasts and resource plans to meet future demand with an adequate and reliable supply of electricity at the lowest possible cost for all customers while satisfying all related state and federal laws and regulations.

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

ISO - Independent System Operator.

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

LIBOR - London Interbank Offered Rate.

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

MACT - maximum achievable control technology.

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

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

MW - megawatt, one thousand kilowatts.

NDT - PPL Susquehanna's nuclear plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

NGCC - Natural gas-fired combined-cycle turbine.

NPDES - National Pollutant Discharge Elimination System.

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

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

OCI - other comprehensive income or loss.

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

Opacity - The degree to which emissions reduce the transmission of light and obscure the view of an object in the background. There are emission regulations that limit the opacity in power plant stack gas emissions.

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek Station in Ohio and the Clifty Creek Station in Indiana, with combined nameplate capacities of 2,390 MW.

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

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

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

PP&E - property, plant and equipment.

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

Purchase Contracts - refers collectively to the 2010 and 2011 Purchase Contracts.

PURTA - The Pennsylvania Public Utility Realty Tax Act.

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

RECs - renewable energy credits.

Regional Transmission Expansion Plan - PJM conducts a long-range Regional Transmission Expansion Planning process that identifies what changes and additions to the grid are needed to ensure future needs are met for both the reliability and the economic performance of the grid. Under PJM agreements, transmission owners are obligated to build transmission projects that are needed to maintain reliability standards and that are reviewed and approved by the PJM Board.

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

Rev. Proc(s). - Revenue Procedure(s), an official published statement by the IRS of a matter of procedural importance to both taxpayers and the IRS concerning administration of the tax laws.

RMC - Risk Management Committee.

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

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

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

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

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

Securities Act of 1933 - the Securities Act of 1933, 15 U.S. Code, Sections 77a-77aa, as amended.

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

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

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

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

TC2 - Trimble County Unit 2, a coal-fired plant located in Kentucky with a capacity of 760 MW. LKE indirectly owns a 75% interest (consists of LG&E's 14.25% and KU's 60.75% interests) in TC2, or 570 MW of the capacity.

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

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

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

VIE - variable interest entity.

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

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

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

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FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in "Item 1A. Risk Factors" in this Form 10-Q and each Registrant's 2010 Form 10-K (in the case of PPL, PPL Energy Supply and PPL Electric) or 2011 Registration Statements (in the case of LKE, LG&E and KU), and in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q report, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

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

- business dispositions or acquisitions and our ability to successfully operate such acquired businesses and realize expected benefits from business acquisitions, including PPL's 2011 acquisition of WPD Midlands and 2010 acquisition of LKE.

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

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

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PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	**2011**	2010
Operating Revenues				
Utility	**$ 1,675**	$ 732	**$ 4,695**	$ 2,438
Unregulated retail electric and gas	**189**	116	**517**	321
Wholesale energy marketing				
Realized	**907**	1,192	**2,677**	3,782
Unrealized economic activity (Note 14)	**216**	52	**229**	(190)
Net energy trading margins	**(7)**	(20)	**14**	(4)
Energy-related businesses	**140**	107	**387**	311
Total Operating Revenues	**3,120**	2,179	**8,519**	6,658
Operating Expenses				
Operation				
Fuel	**603**	322	**1,492**	810
Energy purchases				
Realized	**362**	386	**1,467**	2,132
Unrealized economic activity (Note 14)	**176**	300	**49**	418
Other operation and maintenance	**735**	366	**2,041**	1,229
Depreciation	**252**	127	**697**	376
Taxes, other than income	**90**	56	**238**	181
Energy-related businesses	**135**	100	**368**	288
Total Operating Expenses	**2,353**	1,657	**6,352**	5,434
Operating Income	**767**	522	**2,167**	1,224
Other Income (Expense) - net	**37**	(26)	**(2)**	(18)
Other-Than-Temporary Impairments	**5**		**6**	3
Interest Expense	**240**	171	**678**	413
Income from Continuing Operations Before Income Taxes	**559**	325	**1,481**	790
Income Taxes	**110**	19	**429**	152
Income from Continuing Operations After Income Taxes	**449**	306	**1,052**	638
Income (Loss) from Discontinued Operations (net of income taxes)		(53)	**2**	(38)
Net Income	**449**	253	**1,054**	600
Net Income Attributable to Noncontrolling Interests	**5**	5	**13**	17
Net Income Attributable to PPL Corporation	**$ 444**	$ 248	**$ 1,041**	$ 583
Amounts Attributable to PPL Corporation:				
Income from Continuing Operations After Income Taxes	**$ 444**	$ 301	**$ 1,039**	$ 621
Income (Loss) from Discontinued Operations (net of income taxes)		(53)	**2**	(38)
Net Income	**$ 444**	$ 248	**$ 1,041**	$ 583
Earnings Per Share of Common Stock:				
Income from Continuing Operations After Income Taxes Available to PPL Corporation Common Shareowners:				
Basic	**$ 0.76**	$ 0.62	**$ 1.91**	$ 1.49

Diluted	**$**	**0.76**	$	0.62	**$**	**1.91**	$	1.49
Net Income Available to PPL Corporation Common Shareowners:								
Basic	**$**	**0.76**	$	0.51	**$**	**1.92**	$	1.40
Diluted	**$**	**0.76**	$	0.51	**$**	**1.91**	$	1.40
Dividends Declared Per Share of Common Stock	**$**	**0.350**	$	0.350	**$**	**1.050**	$	1.050
Weighted-Average Shares of Common Stock Outstanding (in thousands)								
Basic		**577,595**		482,552		**541,135**		414,068
Diluted		**578,054**		482,762		**541,480**		414,287

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

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

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Cash Flows from Operating Activities		
Net income	**$ 1,054**	$ 600
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**697**	387
Amortization	**180**	156
Defined benefit plans - expense	**165**	72
Deferred income taxes and investment tax credits	**403**	(179)
Impairment of assets	**13**	118
Unrealized (gains) losses on derivatives, and other hedging activities	**(190)**	595
Provision for Montana hydroelectric litigation	**10**	62
Other	**87**	54
Change in current assets and current liabilities		
Accounts receivable	**(134)**	(93)
Accounts payable	**(164)**	74
Unbilled revenues	**236**	37
Prepayments	**286**	(48)
Counterparty collateral	**(273)**	169
Taxes	**(64)**	45
Regulatory assets and liabilities, net	**96**	(31)
Accrued interest	**111**	56
Other	**(9)**	26
Other operating activities		
Defined benefit plans - funding	**(565)**	(371)
Other assets	**(22)**	(31)
Other liabilities	**(71)**	(2)
Net cash provided by operating activities	**1,846**	1,696
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(1,685)**	(980)
Proceeds from the sale of certain non-core generation facilities	**381**	
Proceeds from the sale of the Long Island generation business		124
Acquisition of WPD Midlands	**(5,763)**	
Purchases of nuclear plant decommissioning trust investments	**(144)**	(93)
Proceeds from the sale of nuclear plant decommissioning trust investments	**134**	83
Proceeds from the sale of other investments	**163**	
Net (increase) decrease in restricted cash and cash equivalents	**(51)**	78
Other investing activities	**(74)**	(52)
Net cash provided by (used in) investing activities	**(7,039)**	(840)
Cash Flows from Financing Activities		
Issuance of long-term debt	**5,245**	1,750
Retirement of long-term debt	**(708)**	
Issuance of common stock	**2,281**	2,425
Payment of common stock dividends	**(543)**	(397)
Redemption of preferred stock of a subsidiary		(54)
Debt issuance and credit facility costs	**(84)**	(79)
Net increase (decrease) in short-term debt	**(322)**	(443)
Other financing activities	**(65)**	(16)
Net cash provided by (used in) financing activities	**5,804**	3,186
Effect of Exchange Rates on Cash and Cash Equivalents	**(25)**	10
Net Increase (Decrease) in Cash and Cash Equivalents	**586**	4,052
Cash and Cash Equivalents at Beginning of Period	**925**	801
Cash and Cash Equivalents at End of Period	**$ 1,511**	$ 4,853

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

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

	September 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	**$ 1,511**	$ 925
Short-term investments	**16**	163
Restricted cash and cash equivalents	**62**	28
Accounts receivable (less reserve: 2011, $42; 2010, $55)		
Customer	**753**	652
Other	**122**	90
Unbilled revenues	**664**	789
Fuel, materials and supplies	**633**	643
Prepayments	**166**	435
Price risk management assets	**1,393**	1,918
Other intangibles	**22**	70
Assets held for sale		374
Regulatory assets	**19**	85
Other current assets	**51**	16
Total Current Assets	**5,412**	6,188
Investments		
Nuclear plant decommissioning trust funds	**594**	618
Other investments	**77**	75
Total Investments	**671**	693
Property, Plant and Equipment		
Regulated utility plant	**22,865**	15,994
Less: accumulated depreciation - regulated utility plant	**3,419**	3,037
Regulated utility plant, net	**19,446**	12,957
Non-regulated property, plant and equipment		
Generation	**10,395**	10,165
Nuclear fuel	**620**	578
Other	**521**	403
Less: accumulated depreciation - non-regulated property, plant and equipment	**5,609**	5,440
Non-regulated property, plant and equipment, net	**5,927**	5,706
Construction work in progress	**1,549**	2,160
Property, Plant and Equipment, net (a)	**26,922**	20,823
Other Noncurrent Assets		
Regulatory assets	**1,277**	1,180
Goodwill (Note 15)	**4,196**	1,761
Other intangibles (a)	**1,074**	966
Price risk management assets	**726**	655
Other noncurrent assets	**678**	571
Total Other Noncurrent Assets	**7,951**	5,133
Total Assets	**$ 40,956**	$ 32,837

(a) At September 30, 2011 and December 31, 2010, includes $419 million and $424 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and $11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

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

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

	September 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Short-term debt	**$ 428**	$ 694
Long-term debt	**502**	502
Accounts payable	**1,120**	1,028
Taxes	**109**	134
Interest	**294**	166
Dividends	**207**	174
Price risk management liabilities	**805**	1,144
Counterparty collateral	**65**	338
Regulatory liabilities	**83**	109
Other current liabilities	**927**	925
Total Current Liabilities	**4,540**	5,214
Long-term Debt	**17,675**	12,161
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**3,451**	2,563
Investment tax credits	**273**	237
Price risk management liabilities	**508**	470
Accrued pension obligations	**1,027**	1,496
Asset retirement obligations	**479**	435
Regulatory liabilities	**1,020**	1,031
Other deferred credits and noncurrent liabilities	**867**	752
Total Deferred Credits and Other Noncurrent Liabilities	**7,625**	6,984
Commitments and Contingent Liabilities (Notes 6 and 10)		
Equity		
PPL Corporation Shareowners' Common Equity		
Common stock - $0.01 par value (a)	**6**	5
Additional paid-in capital	**6,795**	4,602
Earnings reinvested	**4,547**	4,082
Accumulated other comprehensive loss	**(500)**	(479)
Total PPL Corporation Shareowners' Common Equity	**10,848**	8,210
Noncontrolling Interests	**268**	268
Total Equity	**11,116**	8,478
Total Liabilities and Equity	**$ 40,956**	$ 32,837

(a) 780,000 shares authorized; 577,844 and 483,391 shares issued and outstanding at September 30, 2011 and December 31, 2010.

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

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

	PPL Corporation Shareowners						
	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Non-controlling interests	Total
June 30, 2011	577,265	$ 6	$ 6,774	$ 4,306	$ (435)	$ 268	$ 10,919
Common stock issued (b)	579		16				16
Stock-based compensation			5				5
Net income				444		5	449
Dividends, dividend equivalents and distributions (d)				(203)		(5)	(208)
Other comprehensive income (loss)					(65)		(65)
September 30, 2011	577,844	$ 6	$ 6,795	$ 4,547	$ (500)	$ 268	$ 11,116
December 31, 2010	483,391	$ 5	$ 4,602	$ 4,082	$ (479)	$ 268	$ 8,478
Common stock issued (b)	94,453	1	2,328				2,329
Purchase Contracts (c)			(141)				(141)
Stock-based compensation			6				6
Net income				1,041		13	1,054
Dividends, dividend equivalents and distributions (d)				(576)		(13)	(589)
Other comprehensive income (loss)					(21)		(21)
September 30, 2011	577,844	$ 6	$ 6,795	$ 4,547	$ (500)	$ 268	$ 11,116
June 30, 2010	482,188	$ 5	$ 4,553	$ 3,818	$ (439)	$ 268	$ 8,205
Common stock issued (b)	625		16				16
Purchase Contracts (c)			10				10
Stock-based compensation			3				3
Net income				248		5	253
Dividends, dividend equivalents, redemptions and distributions (d)				(169)		(5)	(174)
Other comprehensive income (loss)					279		279
September 30, 2010	482,813	$ 5	$ 4,582	$ 3,897	$ (160)	$ 268	$ 8,592
December 31, 2009	377,183	$ 4	$ 2,280	$ 3,749	$ (537)	$ 319	$ 5,815
Common stock issued (b)	105,630	1	2,474				2,475
Purchase Contracts (c)			(176)				(176)
Stock-based compensation			4				4
Net income				583		17	600
Dividends, dividend equivalents, redemptions and distributions (d)				(435)		(68)	(503)
Other comprehensive income (loss)					377		377
September 30, 2010	482,813	$ 5	$ 4,582	$ 3,897	$ (160)	$ 268	$ 8,592

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented to any shareowners' meeting.
(b) The nine months ended September 30, 2011 includes the April issuance of 92 million shares of common stock. See Note 7 for additional information. The nine months ended September 30, 2010 includes the June issuance of 103.5 million shares of common stock. The 2011 and 2010 periods include shares of common stock issued through various stock and incentive compensation plans.
(c) The nine months ended September 30, 2011 include $123 million for the 2011 Purchase Contracts and $18 million of related fees and expenses, net of tax. See Note 7 for additional information. The three months ended September 30, 2010 includes the recording of a deferred tax benefit for the issuance costs related to the 2010 Purchase Contracts. The nine months ended September 30, 2010 include $157 million for the 2010 Purchase Contracts and $19 million of related fees and expenses, net of tax.
(d) "Earnings reinvested" includes dividends and dividend equivalents on PPL Corporation common stock and restricted stock units. "Noncontrolling interests" includes dividends, redemptions and distributions to noncontrolling interests, for which the nine months ended September 30, 2010 includes $54 million paid to redeem PPL Electric's preferred stock.

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net income	**$ 449**	$ 253	**$ 1,054**	$ 600
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of ($2), $1, ($1), $0	**(4)**	81	**156**	(79)
Available-for-sale securities, net of tax of $28, ($22), $15, ($12)	**(26)**	19	**(13)**	12
Qualifying derivatives, net of tax of ($19), ($96), ($30), ($244)	**41**	134	**48**	360
Equity investees' other comprehensive income (loss), net of tax of $0, $0, $0, $0			**(1)**	
Defined benefit plans:				
Prior service costs, net of tax of $0, ($14), $0, ($14)		17		17
Net actuarial gain (loss), net of tax of $0, $11, $0, ($20)	**1**	(17)	**1**	63
Transition obligation, net of tax of $0, ($4), $0, ($4)		7		7
Reclassifications to net income - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of $0, $0, $5, $2	**2**	1	**(6)**	(3)
Qualifying derivatives, net of tax of $57, ($15), $163, $23	**(94)**	26	**(252)**	(41)
Equity investees' other comprehensive (income) loss, net of tax of $0, $0, $0, $0			**3**	
Defined benefit plans:				
Prior service costs, net of tax of ($2), ($2), ($5), ($6)	**2**	2	**7**	9
Net actuarial loss, net of tax of ($4), ($4), ($14), ($10)	**13**	9	**36**	30
Transition obligation, net of tax of $0, $0, $0, ($1)				2
Total other comprehensive income (loss) attributable to PPL Corporation	**(65)**	279	**(21)**	377
Comprehensive income (loss)	**384**	532	**1,033**	977
Comprehensive income attributable to noncontrolling interests	**5**	5	**13**	17
Comprehensive income (loss) attributable to PPL Corporation	**$ 379**	$ 527	**$ 1,020**	$ 960

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

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Operating Revenues				
Wholesale energy marketing				
Realized	**$ 907**	$ 1,192	**$ 2,677**	$ 3,782
Unrealized economic activity (Note 14)	**216**	52	**229**	(190)
Wholesale energy marketing to affiliate	**5**	71	**15**	250
Unregulated retail electric and gas	**190**	116	**518**	321
Net energy trading margins	**(7)**	(20)	**14**	(4)
Energy-related businesses	**130**	97	**354**	278
Total Operating Revenues	**1,441**	1,508	**3,807**	4,437
Operating Expenses				
Operation				
Fuel	**358**	322	**826**	810
Energy purchases				
Realized	**161**	159	**701**	1,289
Unrealized economic activity (Note 14)	**176**	300	**49**	418
Energy purchases from affiliate	**1**	1	**3**	2
Other operation and maintenance	**208**	213	**741**	765
Depreciation	**62**	59	**181**	176
Taxes, other than income	**18**	12	**50**	34
Energy-related businesses	**130**	95	**350**	269
Total Operating Expenses	**1,114**	1,161	**2,901**	3,763
Operating Income	**327**	347	**906**	674
Other Income (Expense) - net	**2**	6	**20**	17
Other-Than-Temporary Impairments	**5**		**6**	3
Interest Income from Affiliates	**2**	1	**6**	3
Interest Expense	**52**	48	**150**	150
Income from Continuing Operations Before Income Taxes	**274**	306	**776**	541
Income Taxes	**104**	93	**305**	178
Income from Continuing Operations After Income Taxes	**170**	213	**471**	363
Income (Loss) from Discontinued Operations (net of income taxes)		53	**2**	189
Net Income	**170**	266	**473**	552
Net Income Attributable to Noncontrolling Interests	**1**	1	**1**	1
Net Income Attributable to PPL Energy Supply	**$ 169**	$ 265	**$ 472**	$ 551
Amounts Attributable to PPL Energy Supply:				
Income from Continuing Operations After Income Taxes	**$ 169**	$ 212	**$ 470**	$ 362
Income (Loss) from Discontinued Operations (net of income taxes)		53	**2**	189
Net Income	**$ 169**	$ 265	**$ 472**	$ 551

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30,	
	2011	2010
Cash Flows from Operating Activities		
Net income	$ **473**	$ 552
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**182**	274
Amortization	**96**	109
Defined benefit plans - expense	**26**	41
Deferred income taxes and investment tax credits	**226**	(235)
Impairment of assets	**13**	118
Unrealized (gains) losses on derivatives, and other hedging activities	**(155)**	602
Provision for Montana hydroelectric litigation	**10**	62
Other	**19**	47
Change in current assets and current liabilities		
Accounts receivable	**(43)**	43
Accounts payable	**(163)**	(31)
Unbilled revenues	**116**	(45)
Taxes	**61**	112
Counterparty collateral	**(273)**	169
Other	**31**	80
Other operating activities		
Defined benefit plans - funding	**(136)**	(293)
Other assets	**(31)**	(64)
Other liabilities	**(12)**	54
Net cash provided by operating activities	**440**	1,595
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(499)**	(707)
Proceeds from the sale of certain non-core generation facilities	**381**	
Proceeds from the sale of the Long Island generation business		124
Expenditures for intangible assets	**(45)**	(60)
Purchases of nuclear plant decommissioning trust investments	**(144)**	(93)
Proceeds from the sale of nuclear plant decommissioning trust investments	**134**	83
Net (increase) decrease in restricted cash and cash equivalents	**(36)**	76
Other investing activities	**7**	9
Net cash provided by (used in) investing activities	**(202)**	(568)
Cash Flows from Financing Activities		
Issuance of long-term debt		600
Retirement of long-term debt	**(250)**	
Contributions from member	**361**	3,525
Distributions to member	**(209)**	(512)
Cash included in net assets of subsidiary distributed to member	**(325)**	
Net increase (decrease) in short-term debt	**(100)**	(443)
Other financing activities	**(1)**	(10)
Net cash provided by (used in) financing activities	**(524)**	3,160
Effect of Exchange Rates on Cash and Cash Equivalents		10
Net Increase (Decrease) in Cash and Cash Equivalents	**(286)**	4,197
Cash and Cash Equivalents at Beginning of Period	**661**	245
Cash and Cash Equivalents at End of Period	**$ 375**	$ 4,442

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

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

	September 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ 375	$ 661
Restricted cash and cash equivalents	53	19
Accounts receivable (less reserve: 2011, $2; 2010, $20)		
Customer	204	225
Other	29	24
Unbilled revenues	300	486
Accounts receivable from affiliates	124	124
Fuel, materials and supplies	293	297
Prepayments	17	89
Price risk management assets	1,366	1,907
Other intangibles	6	11
Assets held for sale		374
Other current assets	1	11
Total Current Assets	2,768	4,228
Investments		
Nuclear plant decommissioning trust funds	594	618
Other investments	38	37
Total Investments	632	655
Property, Plant and Equipment (Note 8)		
Regulated utility plant		4,269
Less: accumulated depreciation - regulated utility plant		888
Regulated utility plant, net		3,381
Non-regulated property, plant and equipment		
Generation	10,399	10,169
Nuclear fuel	620	578
Other	242	314
Less: accumulated depreciation - non-regulated property, plant and equipment	5,506	5,401
Non-regulated property, plant and equipment, net	5,755	5,660
Construction work in progress	634	594
Property, Plant and Equipment, net (a)	6,389	9,635
Other Noncurrent Assets		
Goodwill (Note 8)	86	765
Other intangibles (a) (Note 8)	384	464
Price risk management assets	675	651
Other noncurrent assets	379	398
Total Other Noncurrent Assets	1,524	2,278
Total Assets	$ 11,313	$ 16,796

(a) At September 30, 2011 and December 31, 2010, includes $419 million and $424 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and $11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

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

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

	September 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Short-term debt	**$ 250**	$ 531
Long-term debt	**500**	500
Accounts payable	**359**	592
Accounts payable to affiliates	**10**	43
Taxes	**127**	119
Interest	**60**	110
Price risk management liabilities	**735**	1,112
Counterparty collateral	**65**	338
Other current liabilities	**439**	624
Total Current Liabilities	**2,545**	3,969
Long-term Debt (Note 8)	**2,525**	5,089
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**1,266**	1,548
Investment tax credits	**123**	81
Price risk management liabilities	**455**	438
Accrued pension obligations (Note 8)	**178**	619
Asset retirement obligations	**345**	332
Other deferred credits and noncurrent liabilities	**192**	211
Total Deferred Credits and Other Noncurrent Liabilities	**2,559**	3,229
Commitments and Contingent Liabilities (Note 10)		
Equity		
Member's equity	**3,666**	4,491
Noncontrolling interests	**18**	18
Total Equity	**3,684**	4,509
Total Liabilities and Equity	**$ 11,313**	$ 16,796

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

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Member's equity	Non-controlling interests	Total
June 30, 2011	$ 3,434	$ 18	$ 3,452
Net income	169	1	170
Other comprehensive income (loss)	(55)		(55)
Contributions from member	193		193
Distributions	(75)	(1)	(76)
September 30, 2011	$ 3,666	$ 18	$ 3,684
December 31, 2010	$ 4,491	$ 18	$ 4,509
Net income	472	1	473
Other comprehensive income (loss)	(161)		(161)
Contributions from member	361		361
Distributions	(209)	(1)	(210)
Distribution of membership interest in PPL Global (a)	(1,288)		(1,288)
September 30, 2011	$ 3,666	$ 18	$ 3,684
June 30, 2010	$ 8,168	$ 18	$ 8,186
Net income	265	1	266
Other comprehensive income (loss)	332		332
Distributions	(148)	(1)	(149)
September 30, 2010	$ 8,617	$ 18	$ 8,635
December 31, 2009	$ 4,568	$ 18	$ 4,586
Net income	551	1	552
Other comprehensive income (loss)	485		485
Contributions from member	3,525		3,525
Distributions	(512)	(1)	(513)
September 30, 2010	$ 8,617	$ 18	$ 8,635

(a) See Note 8 for additional information.

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Net income	**$ 170**	$ 266	**$ 473**	$ 552
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of $0, $1, $0, $0		81		(79)
Available-for-sale securities, net of tax of $28, ($22), $15, ($12)	**(26)**	19	**(13)**	12
Qualifying derivatives, net of tax of ($27), ($147), ($48), ($337)	**39**	207	**68**	492
Defined benefit plans:				
Prior service costs, net of tax of $0, ($9), $0, ($9)		12		12
Net actuarial gain (loss), net of tax of $0, $7, $0, ($24)	**1**	(13)	**1**	67
Transition obligation, net of tax of $0, ($3), $0, ($3)		6		6
Reclassifications to net income - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of $0, $0, $5, $2	**2**	1	**(6)**	(3)
Qualifying derivatives, net of tax of $50, ($2), $153, $36	**(73)**	9	**(220)**	(59)
Equity investee's other comprehensive (income) loss, net of tax of $0, $0, $0, $0			**3**	
Defined benefit plans:				
Prior service costs, net of tax of ($1), ($1), ($3), ($4)	**1**	1	**3**	6
Net actuarial loss, net of tax of ($1), ($4), ($2), ($10)	**1**	9	**3**	29
Transition obligation, net of tax of $0, ($1), $0, ($1)				2
Total other comprehensive income (loss) attributable to PPL Energy Supply	**(55)**	332	**(161)**	485
Comprehensive income (loss)	**115**	598	**312**	1,037
Comprehensive income attributable to noncontrolling interests	**1**	1	**1**	1
Comprehensive income (loss) attributable to PPL Energy Supply	**$ 114**	$ 597	**$ 311**	$ 1,036

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

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Operating Revenues				
Retail electric	**$ 454**	$ 570	**$ 1,444**	$ 1,901
Electric revenue from affiliate	**1**	1	**9**	5
Total Operating Revenues	**455**	571	**1,453**	1,906
Operating Expenses				
Operation				
Energy purchases	**171**	229	**591**	848
Energy purchases from affiliate	**5**	71	**15**	250
Other operation and maintenance	**146**	126	**402**	377
Depreciation	**38**	34	**108**	101
Taxes, other than income	**26**	32	**83**	108
Total Operating Expenses	**386**	492	**1,199**	1,684
Operating Income	**69**	79	**254**	222
Other Income (Expense) - net	**2**		**3**	3
Interest Income from Affiliate	**1**		**1**	1
Interest Expense	**26**	24	**74**	74
Income Before Income Taxes	**46**	55	**184**	152
Income Taxes	**14**	15	**56**	47
Net Income	**32**	40	**128**	105
Distributions on Preferred Securities	**4**	4	**12**	16
Net Income Available to PPL Corporation	**$ 28**	$ 36	**$ 116**	$ 89

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

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

	Nine Months Ended September 30, 2011	2010
Cash Flows from Operating Activities		
Net income	**$ 128**	$ 105
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	**108**	101
Amortization	**5**	(15)
Defined benefit plans - expense	**13**	16
Deferred income taxes and investment tax credits	**9**	52
Other	**2**	5
Change in current assets and current liabilities		
Accounts receivable	**(5)**	(34)
Accounts payable	**(105)**	(15)
Unbilled revenues	**53**	82
Prepayments	**58**	(71)
Regulatory assets and liabilities	**95**	(31)
Taxes	**19**	(11)
Other	**(7)**	(7)
Other operating activities		
Defined benefit plans - funding	**(102)**	(49)
Other assets	**(1)**	22
Other liabilities	**(9)**	(23)
Net cash provided by (used in) operating activities	**261**	127
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(357)**	(251)
Other investing activities	**4**	(2)
Net cash provided by (used in) investing activities	**(353)**	(253)
Cash Flows from Financing Activities		
Issuance of long-term debt	**645**	
Retirement of long-term debt	**(458)**	
Contributions from parent	**56**	55
Redemption of preferred stock		(54)
Payment of common stock dividends to parent	**(76)**	(49)
Distributions on preferred securities	**(12)**	(13)
Other financing activities	**(6)**	(1)
Net cash provided by (used in) financing activities	**149**	(62)
Net Increase (Decrease) in Cash and Cash Equivalents	**57**	(188)
Cash and Cash Equivalents at Beginning of Period	**204**	485
Cash and Cash Equivalents at End of Period	**$ 261**	$ 297

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	**$ 261**	$ 204
Accounts receivable (less reserve: 2011, $17; 2010, $17)		
Customer	**270**	268
Other	**10**	24
Accounts receivable from affiliates	**36**	8
Unbilled revenues	**81**	134
Materials and supplies	**47**	47
Prepayments	**78**	136
Regulatory assets	**3**	63
Other current assets	**23**	4
Total Current Assets	**809**	888
Property, Plant and Equipment		
Regulated utility plant	**5,751**	5,494
Less: accumulated depreciation - regulated utility plant	**2,206**	2,123
Regulated utility plant, net	**3,545**	3,371
Other, net	**2**	2
Construction work in progress	**219**	177
Property, Plant and Equipment, net	**3,766**	3,550
Other Noncurrent Assets		
Regulatory assets	**663**	592
Intangibles	**153**	147
Other noncurrent assets	**81**	76
Total Other Noncurrent Assets	**897**	815
Total Assets	**$ 5,472**	$ 5,253

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Accounts payable	**$ 145**	$ 221
Accounts payable to affiliates	**43**	73
Taxes	**42**	23
Interest	**20**	17
Regulatory liabilities	**46**	18
Other current liabilities	**97**	126
Total Current Liabilities	**393**	478
Long-term Debt	**1,718**	1,472
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**998**	932
Accrued pension obligations	**166**	259
Regulatory liabilities	**13**	14
Other deferred credits and noncurrent liabilities	**144**	154
Total Deferred Credits and Other Noncurrent Liabilities	**1,321**	1,359
Commitments and Contingent Liabilities (Notes 6 and 10)		
Shareowners' Equity		
Preferred securities	**250**	250
Common stock - no par value (a)	**364**	364
Additional paid-in capital	**935**	879
Earnings reinvested	**491**	451
Total Equity	**2,040**	1,944
Total Liabilities and Equity	**$ 5,472**	$ 5,253

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at September 30, 2011 and December 31, 2010.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)		Preferred securities		Common stock		Additional paid-in capital		Earnings reinvested		Total
June 30, 2011	66,368	$	250	$	364	$	879	$	487	$	1,980
Net income (b)									32		32
Capital contributions from PPL							56				56
Cash dividends declared on preferred securities									(4)		(4)
Cash dividends declared on common stock									(24)		(24)
September 30, 2011	66,368	$	250	$	364	$	935	$	491	$	2,040
December 31, 2010	66,368	$	250	$	364	$	879	$	451	$	1,944
Net income (b)									128		128
Capital contributions from PPL							56				56
Cash dividends declared on preferred securities									(12)		(12)
Cash dividends declared on common stock									(76)		(76)
September 30, 2011	66,368	$	250	$	364	$	935	$	491	$	2,040
June 30, 2010	66,368	$	250	$	364	$	879	$	420	$	1,913
Net income (b)									40		40
Cash dividends declared on preferred securities									(4)		(4)
Cash dividends declared on common stock									(9)		(9)
September 30, 2010	66,368	$	250	$	364	$	879	$	447	$	1,940
December 31, 2009	66,368	$	301	$	364	$	824	$	407	$	1,896
Net income (b)									105		105
Redemption of preferred stock (c)			(51)						(3)		(54)
Capital contributions from PPL							55				55
Cash dividends declared on preferred securities									(13)		(13)
Cash dividends declared on common stock									(49)		(49)
September 30, 2010	66,368	$	250	$	364	$	879	$	447	$	1,940

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.
(b) PPL Electric's net income approximates comprehensive income.
(c) In April 2010, PPL Electric redeemed all five series of its outstanding preferred stock.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
Operating Revenues	**$ 736**	$ 719	**$ 2,140**	$ 2,035
Operating Expenses				
Operation				
Fuel	**245**	250	**666**	668
Energy purchases	**32**	39	**179**	200
Other operation and maintenance	**187**	177	**566**	509
Depreciation	**84**	73	**249**	211
Taxes, other than income	**10**	5	**28**	19
Total Operating Expenses	**558**	544	**1,688**	1,607
Operating Income	**178**	175	**452**	428
Other Income (Expense) - net		31	**(1)**	17
Interest Expense	**36**	6	**108**	19
Interest Expense with Affiliate		39		118
Income from Continuing Operations Before Income Taxes	**142**	161	**343**	308
Income Taxes	**52**	59	**125**	112
Income from Continuing Operations After Income Taxes	**90**	102	**218**	196
Income (Loss) from Discontinued Operations (net of income taxes)	**(1)**		**(1)**	(2)
Net Income	**$ 89**	$ 102	**$ 217**	$ 194

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30, 2011 Successor	2010 Predecessor
Cash Flows from Operating Activities		
Net income	**$ 217**	$ 194
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**249**	211
Defined benefit plans - expense	**38**	55
Deferred income taxes and investment tax credits	**206**	83
Unrealized (gains) losses on derivatives		14
Regulatory asset for previously recorded losses on interest rate swaps		(22)
Other	**(9)**	(2)
Change in current assets and current liabilities		
Accounts receivable	**2**	(31)
Accounts payable	**(28)**	(33)
Unbilled revenues	**58**	22
Fuel, materials and supplies	**30**	(14)
Regulatory assets		11
Income tax receivable	**40**	15
Other current assets	**5**	9
Regulatory liabilities		(17)
Other current liabilities	**21**	7
Other operating activities		
Defined benefit plans - funding	**(159)**	(54)
Regulatory liabilities		(20)
Discontinued operations		27
Change in smelter contract liability		(45)
Other assets	**6**	(35)
Other liabilities	**(2)**	35
Net cash provided by operating activities	**674**	410
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(287)**	(326)
Proceeds from sales of discontinued operations		21
Proceeds from the sale of other investments	**163**	
Net (increase) decrease in notes receivable from affiliates	**8**	
Net (increase) decrease in restricted cash and cash equivalents	**(11)**	
Net cash provided by (used in) investing activities	**(127)**	(305)
Cash Flows from Financing Activities		
Issuance of short-term debt with affiliate		825
Retirement of short-term debt with affiliate		(575)
Net increase (decrease) in notes payable with affiliates		(94)
Issuance of long-term debt with affiliate		50
Retirement of long-term debt with affiliate		(250)
Issuance of long-term debt	**250**	
Net increase (decrease) in short-term debt	**(163)**	
Debt issuance and credit facility costs	**(6)**	
Distributions to member	**(469)**	(62)
Net cash provided by (used in) financing activities	**(388)**	(106)
Net Increase (Decrease) in Cash and Cash Equivalents	**159**	(1)
Cash and Cash Equivalents at Beginning of Period	**11**	7
Cash and Cash Equivalents at End of Period	**$ 170**	$ 6

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	September 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ **170**	$ 11
Short-term investments		163
Accounts receivable (less reserve: 2011, $17; 2010, $17)		
Customer	**154**	160
Other	**11**	33
Unbilled revenues	**112**	170
Accounts receivable from affiliates	**1**	2
Fuel, materials and supplies	**268**	298
Notes receivable from affiliates	**53**	61
Income tax receivable		40
Deferred income taxes	**96**	66
Regulatory assets	**16**	22
Other intangibles	**15**	58
Other current assets	**26**	26
Total Current Assets	**922**	1,110
Investments	**32**	31
Property, Plant and Equipment		
Regulated utility plant	**7,344**	6,230
Less: accumulated depreciation - regulated utility plant	**211**	31
Regulated utility plant, net	**7,133**	6,199
Other, net	**4**	4
Construction work in progress	**501**	1,340
Property, Plant and Equipment, net	**7,638**	7,543
Other Noncurrent Assets		
Regulatory assets	**614**	588
Goodwill	**996**	996
Other intangibles	**324**	356
Other noncurrent assets	**106**	94
Total Other Noncurrent Assets	**2,040**	2,034
Total Assets	$ **10,632**	$ 10,718

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	September 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Short-term debt		$ 163
Long-term debt	**$ 2**	2
Accounts payable	**164**	189
Accounts payable to affiliates	**2**	3
Customer deposits	**46**	46
Taxes	**29**	27
Regulatory liabilities	**37**	91
Other current liabilities	**139**	122
Total Current Liabilities	**419**	643
Long-term Debt	**4,073**	3,823
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**482**	240
Investment tax credits	**146**	150
Accrued pension obligations	**339**	449
Asset retirement obligations	**113**	103
Regulatory liabilities	**1,007**	1,017
Price risk management liabilities	**53**	32
Other deferred credits and noncurrent liabilities	**243**	250
Total Deferred Credits and Other Noncurrent Liabilities	**2,383**	2,241
Commitments and Contingent Liabilities (Notes 6 and 10)		
Member's equity	**3,757**	4,011
Total Liabilities and Equity	**$ 10,632**	$ 10,718

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Member's Equity	Non-controlling interests	Total
June 30, 2011 - Successor	$ 3,991		$ 3,991
Net income	89		89
Distributions to member	(323)		(323)
September 30, 2011 - Successor	$ 3,757		$ 3,757
December 31, 2010 - Successor	$ 4,011		$ 4,011
Net income	217		217
Distributions to member	(469)		(469)
Other comprehensive income (loss)	(2)		(2)
September 30, 2011 - Successor	$ 3,757		$ 3,757
June 30, 2010 - Predecessor	$ 2,241		$ 2,241
Net income	102		102
Distributions to member	(25)		(25)
Disposal of discontinued operations	1		1
Other comprehensive income (loss)	9		9
September 30, 2010 - Predecessor	$ 2,328		$ 2,328
December 31, 2009 - Predecessor	$ 2,192	$ 32	$ 2,224
Net income	194		194
Distributions to member	(56)		(56)
Disposal of discontinued operations	(10)	(32)	(42)
Other comprehensive income (loss)	8		8
September 30, 2010 - Predecessor	$ 2,328	$	$ 2,328

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
Net income	**$ 89**	$ 102	**$ 217**	$ 194
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Qualifying derivatives, net of tax of $0, ($9), $0, and ($7)		11		10
Equity investee's other comprehensive income (loss), net of tax of $0, $1, $0, and $1	**1**	(2)		(2)
Reclassification to net income - (gains) losses, net of tax expense (benefit):				
Defined benefit plans:				
Net actuarial loss, net of tax of $0, $0, $1, and $0	**(1)**		**(2)**	
Total other comprehensive income (loss)		9	**(2)**	8
Comprehensive income (loss)	**$ 89**	**$ 111**	**$ 215**	**$ 202**

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF INCOME
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
	Successor	**Predecessor**	**Successor**	**Predecessor**
Operating Revenues				
Retail and wholesale	**$ 323**	$ 304	**$ 974**	$ 901
Electric revenue from affiliate	**17**	23	**61**	71
Total Operating Revenues	**340**	327	**1,035**	972
Operating Expenses				
Operation				
Fuel	**98**	104	**265**	277
Energy purchases	**24**	20	**155**	133
Energy purchases from affiliate	**7**	3	**25**	13
Other operation and maintenance	**91**	85	**272**	250
Depreciation	**37**	35	**110**	104
Taxes, other than income	**5**	3	**14**	11
Total Operating Expenses	**262**	250	**841**	788
Operating Income	**78**	77	**194**	184
Other Income (Expense) - net		29		17
Interest Expense	**11**	5	**34**	14
Interest Expense with Affiliate		6		20
Income Before Income Taxes	**67**	95	**160**	167
Income Taxes	**24**	35	**58**	60
Net Income	**$ 43**	$ 60	**$ 102**	$ 107

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30, 2011 Successor	2010 Predecessor
Cash Flows from Operating Activities		
Net income	**$ 102**	$ 107
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**110**	104
Defined benefit plans - expense	**24**	17
Deferred income taxes and investment tax credits	**38**	30
Unrealized (gains) losses on derivatives		14
Regulatory asset for previously recorded losses on interest rate swaps		(22)
Other	**3**	1
Change in current assets and current liabilities		
Accounts receivable	**12**	(12)
Accounts payable	**(16)**	(5)
Unbilled revenues	**39**	14
Fuel, materials and supplies	**16**	(11)
Other current assets	**2**	(4)
Regulatory liabilities		(25)
Other current liabilities	**13**	(2)
Other operating activities		
Defined benefit plans - funding	**(68)**	(24)
Regulatory liabilities		(11)
Other assets		(6)
Other liabilities	**(1)**	(3)
Net cash provided by operating activities	**274**	162
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(122)**	(108)
Proceeds from the sale of assets to affiliate		48
Proceeds from the sale of other investments	**163**	
Net (increase) decrease in restricted cash and cash equivalents	**(11)**	
Net cash provided by (used in) investing activities	**30**	(60)
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates	**(12)**	(48)
Net increase (decrease) in short-term debt	**(163)**	
Debt issuance and credit facility costs	**(1)**	
Payment of common stock dividends to parent	**(55)**	(55)
Net cash provided by (used in) financing activities	**(231)**	(103)
Net Increase (Decrease) in Cash and Cash Equivalents	**73**	(1)
Cash and Cash Equivalents at Beginning of Period	**2**	5
Cash and Cash Equivalents at End of Period	**$ 75**	$ 4

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	**$ 75**	$ 2
Short-term investments		163
Accounts receivable (less reserve: 2011, $2; 2010, $2)		
Customer	**69**	70
Other	**5**	13
Unbilled revenues	**42**	81
Accounts receivable from affiliates	**11**	30
Fuel, materials and supplies	**146**	162
Regulatory assets	**10**	13
Other intangibles	**9**	36
Other current assets	**14**	13
Total Current Assets	**381**	583
Property, Plant and Equipment		
Regulated utility plant	**2,899**	2,600
Less: accumulated depreciation - regulated utility plant	**91**	17
Regulated utility plant, net	**2,808**	2,583
Construction work in progress	**192**	385
Property, Plant and Equipment, net	**3,000**	2,968
Other Noncurrent Assets		
Regulatory assets	**390**	367
Goodwill	**389**	389
Other intangibles	**170**	181
Other noncurrent assets	**40**	31
Total Other Noncurrent Assets	**989**	968
Total Assets	**$ 4,370**	$ 4,519

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Short-term debt		$ 163
Notes payable with affiliates		12
Accounts payable	**$ 81**	100
Accounts payable to affiliates	**21**	20
Customer deposits	**23**	23
Taxes	**19**	10
Regulatory liabilities	**20**	51
Other current liabilities	**42**	38
Total Current Liabilities	**206**	417
Long-term Debt	**1,112**	1,112
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**461**	419
Investment tax credits	**44**	46
Accrued pension obligations	**78**	126
Asset retirement obligations	**54**	49
Regulatory liabilities	**481**	483
Price risk management liabilities	**53**	32
Other deferred credits and noncurrent liabilities	**113**	114
Total Deferred Credits and Other Noncurrent Liabilities	**1,284**	1,269
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	**424**	424
Additional paid-in capital	**1,278**	1,278
Earnings reinvested	**66**	19
Total Equity	**1,768**	1,721
Total Liabilities and Equity	**$ 4,370**	$ 4,519

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at September 30, 2011 and December 31, 2010.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)		Common stock		Additional paid-in capital		Earnings reinvested		Accumulated other comprehensive income (loss)		Total
June 30, 2011 - Successor	21,294	$	424	$	1,278	$	36			$	1,738
Net income							43				43
Cash dividends declared on common stock							(13)				(13)
September 30, 2011 - Successor	21,294	$	424	$	1,278	$	66			$	1,768
December 31, 2010 - Successor	21,294	$	424	$	1,278	$	19			$	1,721
Net income							102				102
Cash dividends declared on common stock							(55)				(55)
September 30, 2011 - Successor	21,294	$	424	$	1,278	$	66			$	1,768
June 30, 2010 - Predecessor	21,294	$	424	$	84	$	772	$	(13)	$	1,267
Net income							60				60
Cash dividends declared on common stock							(25)				(25)
Other comprehensive income (loss)									13		13
September 30, 2010 - Predecessor	21,294	$	424	$	84	$	807	$		$	1,315
December 31, 2009 - Predecessor	21,294	$	424	$	84	$	755	$	(10)	$	1,253
Net income							107				107
Cash dividends declared on common stock							(55)				(55)
Other comprehensive income (loss)									10		10
September 30, 2010 - Predecessor	21,294	$	424	$	84	$	807	$		$	1,315

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
Net income	**$ 43**	$ 60	**$ 102**	$ 107
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Qualifying derivatives, net of tax of $0, ($8), $0, and ($7)		13		10
Total other comprehensive income (loss)		13		10
Comprehensive income (loss)	**$ 43**	**$ 73**	**$ 102**	**$ 117**

The accompanying Notes to the Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF INCOME
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 Successor	**2010 Predecessor**	**2011 Successor**	**2010 Predecessor**
Operating Revenues				
Retail and wholesale	**$ 413**	$ 413	**$ 1,166**	$ 1,133
Electric revenue from affiliate	**7**	3	**25**	13
Total Operating Revenues	**420**	416	**1,191**	1,146
Operating Expenses				
Operation				
Fuel	**147**	146	**401**	391
Energy purchases	**8**	19	**24**	67
Energy purchases from affiliate	**17**	23	**61**	71
Other operation and maintenance	**90**	83	**274**	240
Depreciation	**47**	38	**139**	106
Taxes, other than income	**5**	2	**14**	8
Total Operating Expenses	**314**	311	**913**	883
Operating Income	**106**	105	**278**	263
Other Income (Expense) - net		1	**1**	2
Interest Expense	**18**	2	**53**	5
Interest Expense with Affiliate		18		55
Income Before Income Taxes	**88**	86	**226**	205
Income Taxes	**32**	32	**82**	76
Net Income	**$ 56**	$ 54	**$ 144**	$ 129

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30, 2011 Successor	2010 Predecessor
Cash Flows from Operating Activities		
Net income	**$ 144**	$ 129
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**139**	106
Defined benefit plans - expense	**19**	11
Deferred income taxes and investment tax credits	**78**	42
Other	**(14)**	(3)
Change in current assets and current liabilities		
Accounts receivable	**(3)**	(14)
Accounts payable	**(16)**	11
Unbilled revenues	**19**	8
Fuel, materials and supplies	**14**	(3)
Regulatory assets		18
Other current assets		2
Other current liabilities	**11**	6
Other operating activities		
Defined benefit plans - funding	**(46)**	(17)
Other assets	**7**	13
Other liabilities		(9)
Net cash provided by operating activities	**352**	300
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(161)**	(218)
Purchases of assets from affiliate		(48)
Net cash provided by (used in) investing activities	**(161)**	(266)
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates	**(10)**	16
Debt issuance and credit facility costs	**(2)**	
Payment of common stock dividends to parent	**(88)**	(50)
Net cash provided by (used in) financing activities	**(100)**	(34)
Net Increase (Decrease) in Cash and Cash Equivalents	**91**	
Cash and Cash Equivalents at Beginning of Period	**3**	2
Cash and Cash Equivalents at End of Period	**$ 94**	$ 2

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	**$ 94**	$ 3
Accounts receivable (less reserve: 2011, $3; 2010, $6)		
Customer	**85**	90
Other	**5**	20
Unbilled revenues	**70**	89
Accounts receivable from affiliates	**2**	12
Fuel, materials and supplies	**122**	136
Regulatory assets	**6**	9
Other intangibles	**6**	22
Other current assets	**17**	15
Total Current Assets	**407**	396
Investments	**31**	30
Property, Plant and Equipment		
Regulated utility plant	**4,446**	3,630
Less: accumulated depreciation - regulated utility plant	**120**	14
Regulated utility plant, net	**4,326**	3,616
Construction work in progress	**308**	955
Property, Plant and Equipment, net	**4,634**	4,571
Other Noncurrent Assets		
Regulatory assets	**224**	221
Goodwill	**607**	607
Other intangibles	**154**	175
Other noncurrent assets	**59**	58
Total Other Noncurrent Assets	**1,044**	1,061
Total Assets	**$ 6,116**	$ 6,058

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Notes payable with affiliates		$ 10
Accounts payable	**$ 75**	67
Accounts payable to affiliates	**24**	45
Customer deposits	**23**	23
Taxes	**20**	25
Regulatory liabilities	**17**	40
Other current liabilities	**54**	41
Total Current Liabilities	**213**	251
Long-term Debt	**1,841**	1,841
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**456**	376
Investment tax credits	**102**	104
Accrued pension obligations	**83**	113
Asset retirement obligations	**59**	54
Regulatory liabilities	**526**	534
Other deferred credits and noncurrent liabilities	**89**	94
Total Deferred Credits and Other Noncurrent Liabilities	**1,315**	1,275
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	**308**	308
Additional paid-in capital	**2,348**	2,348
Earnings reinvested	**91**	35
Total Equity	**2,747**	2,691
Total Liabilities and Equity	**$ 6,116**	$ 6,058

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at September 30, 2011 and December 31, 2010.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)		Common stock		Additional paid-in capital		Earnings reinvested		Accumulated other comprehensive income (loss)		Total
June 30, 2011 - Successor	37,818	$	308	$	2,348	$	55	$	(1)	$	2,710
Net income (b)							56				56
Cash dividends declared on common stock							(20)				(20)
Other comprehensive income (loss)									1		1
September 30, 2011 - Successor	37,818	$	308	$	2,348	$	91	$		$	2,747
December 31, 2010 - Successor	37,818	$	308	$	2,348	$	35			$	2,691
Net income (b)							144				144
Cash dividends declared on common stock							(88)				(88)
September 30, 2011 - Successor	37,818	$	308	$	2,348	$	91			$	2,747
June 30, 2010 - Predecessor	37,818	$	308	$	316	$	1,403			$	2,027
Net income (b)							54				54
Cash dividends declared on common stock							(50)				(50)
Other comprehensive income (loss)								$	(2)		(2)
September 30, 2010 - Predecessor	37,818	$	308	$	316	$	1,407	$	(2)	$	2,029
December 31, 2009 - Predecessor	37,818	$	308	$	316	$	1,328			$	1,952
Net income (b)							129				129
Cash dividends declared on common stock							(50)				(50)
Other comprehensive income (loss)								$	(2)		(2)
September 30, 2010 - Predecessor	37,818	$	308	$	316	$	1,407	$	(2)	$	2,029

(a) Shares in thousands. All common shares of KU stock are owned by LKE.
(b) KU's net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

1. Interim Financial Statements

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are explained in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with accounting principles generally accepted in the U.S. are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2010 is derived from that Registrant's 2010 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in the 2010 Form 10-K (in the case of PPL and PPL Electric), in the Form 8-K dated June 24, 2011 (in the case of PPL Energy Supply), or the annual financial statements included in the 2011 Registration Statements (in the case of LKE, LG&E and KU). The results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year ending December 31, 2011 or other future periods, because results for interim periods can be disproportionately influenced by various factors and developments and seasonal variations.

The classification of certain prior period amounts has been changed to conform to the presentation in the September 30, 2011 financial statements.

(PPL)

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary, PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands), from subsidiaries of E.ON AG. See Note 8 for additional information. As PPL is consolidating WPD Midlands on a one-month lag, three and five months of WPD Midlands' operating results are included in PPL's results of operations for the three and nine months ended September 30, 2011 with no comparable amounts for the same periods in 2010. See Note 2 for additional information regarding PPL's consolidation policy.

In November 2010, PPL completed the acquisition of LKE. See Notes 1 and 10 in PPL's 2010 Form 10-K for additional information. LKE's operating results for the three and nine months ended September 30, 2011 are included in PPL's results of operations with no comparable amounts for the same periods in 2010.

(LKE, LG&E and KU)

LKE's, LG&E's and KU's financial statements and accompanying footnotes have been segregated to present pre-acquisition activity as the "Predecessor" and post-acquisition activity as the "Successor." Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives in the Successor financial statements to conform to PPL's accounting policies, which are discussed in the annual financial statements included in LKE's, LG&E's and KU's 2011 Registration Statements. The cost bases of certain assets and liabilities were changed as of November 1, 2010 as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor period are not comparable to the Predecessor period.

(PPL Energy Supply)

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global, representing 100% of the outstanding membership interest of PPL Global, to PPL Energy Supply's parent, PPL Energy Funding. The distribution was made based on the book value of the assets and liabilities of PPL Global with financial effect as of January 1, 2011. See Note 8 for additional information.

(PPL, PPL Energy Supply and LKE)

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income includes the activities of various businesses that were sold or distributed in 2011 and 2010. See Note 8 for additional information. The Statements of Cash Flows do not separately report the cash flows of the Discontinued Operations, except for the LKE Predecessor period, which separately discloses these cash flows within operating, investing and financing activities, consistent with LKE's pre-acquisition accounting policy.

2. Summary of Significant Accounting Policies

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The following accounting policy disclosures represent updates to Note 1 in the 2010 Form 10-K (in the case of PPL and PPL Electric), in the Form 8-K dated June 24, 2011 (in the case of PPL Energy Supply), or in the annual financial statements included in the 2011 Registration Statements (in the case of LKE, LG&E and KU) and should be read in conjunction with those disclosures.

General

Business and Consolidation *(PPL)*

As noted above, on April 1, 2011, PPL, through its indirect, wholly owned subsidiary, PPL WEM, completed the acquisition of WPD Midlands. PPL consolidates WPD, including WPD Midlands, on a one-month lag. Material intervening events, such as debt issuances that occur in the lag period, are recognized in the current period financial statements. Events that are significant but not material are disclosed. See Note 8 for additional information.

Regulation *(PPL, PPL Electric, LKE, LG&E and KU)*

The electricity distribution subsidiaries of PPL WW and PPL WEM are not subject to accounting for the effects of certain types of regulation as prescribed by GAAP, as their operations do not meet the requirements for such accounting guidance. However, PPL Electric, LG&E and KU all apply this accounting guidance.

Accounts Receivable *(PPL, PPL Energy Supply and PPL Electric)*

PPL Electric's customers may elect to procure generation supply from an alternative supplier. As a result of a PUC-approved purchase of accounts receivable program, PPL Electric has purchased certain accounts receivable from alternative suppliers at a nominal discount, which reflects a provision for uncollectible accounts. The alternative suppliers (including PPL Electric's affiliate, PPL EnergyPlus) have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. PPL Electric receives a nominal fee for administering its program. During the three and nine months ended September 30, 2011, PPL Electric purchased $219 million and $671 million of accounts receivable from unaffiliated third parties and $74 million and $194 million from its affiliate, PPL EnergyPlus. During the three and nine months ended September 30, 2010, PPL Electric purchased $203 million and $428 million of accounts receivable from unaffiliated third parties and $66 million and $157 million from its affiliate, PPL EnergyPlus.

New Accounting Guidance Adopted *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

No new accounting guidance has been adopted during the three or nine months ended September 30, 2011. See Note 18 for a discussion of new accounting guidance pending adoption.

3. Segment and Related Information

(PPL and PPL Energy Supply)

See Note 2 to the Financial Statements in the 2010 Form 10-K for PPL and in the Form 8-K dated June 24, 2011 for PPL Energy Supply for a discussion of reportable segments. In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. Following the distribution, PPL Energy Supply operates in a single business segment, the Supply segment. PPL Energy Supply's 2010 segment information was restated to reflect PPL Global as a Discontinued Operation. See Note 8 for additional information.

(PPL)

PPL includes the results of PPL Global in the International Regulated segment. This includes the operating results and assets of WPD Midlands since the acquisition date, April 1, 2011, on a one-month lag. See Note 8 for additional information regarding the acquisition.

The Kentucky Regulated and International Regulated segments include certain acquisition-related costs and financing activities associated with the acquisitions of LKE and WPD Midlands.

Financial data for the segments for the periods ended September 30 are:

	Three Months		Nine Months	
	2011	2010	2011	2010
PPL				
Income Statement Data				
Revenues from external customers				
Kentucky Regulated	$ 736		$ 2,140	
International Regulated	493	$ 172	1,138	$ 563
Pennsylvania Regulated	454	570	1,444	1,901
Supply (a)	1,437	1,437	3,797	4,194
Total	$ 3,120	$ 2,179	$ 8,519	$ 6,658
Intersegment electric revenues				
Pennsylvania Regulated	$ 1	$ 1	$ 9	$ 5
Supply (b)	5	71	15	250
Net Income Attributable to PPL				
Kentucky Regulated	$ 78		$ 184	
International Regulated	138	$ 93	231	$ 227
Pennsylvania Regulated	28	36	116	89
Supply (a) (d)	200	153	510	320
Unallocated Costs (e)		(34)		(53)
Total	$ 444	$ 248	$ 1,041	$ 583
PPL Energy Supply				
Income Statement Data				
Revenues from external customers				
Supply (a)	$ 1,441	$ 1,508	$ 3,807	$ 4,437
Net Income				
International Regulated (c)		$ 106		$ 227
Supply (a) (d)	$ 169	159	$ 472	324
Total	$ 169	$ 265	$ 472	$ 551

	PPL		PPL Energy Supply	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Balance Sheet Data				
Assets				
Kentucky Regulated (f)	$ 10,304	$ 10,318		
International Regulated	13,513	4,800		$ 4,800
Pennsylvania Regulated	5,385	5,189		
Supply (f)	11,754	12,530	$ 11,313	11,996
Total assets	$ 40,956	$ 32,837	$ 11,313	$ 16,796

(a) Includes unrealized gains and losses from economic activity. See Note 14 for additional information.
(b) See "PLR Contracts/Purchase of Accounts Receivable" in Note 11 for a discussion of the basis of accounting between reportable segments.
(c) Reported in Discontinued Operations. See Note 8 for additional information.
(d) In April 2011, during the PPL Susquehanna Unit 2 refueling and generation uprate outage, a planned inspection of the Unit 2 turbine revealed cracks in certain of its low pressure turbine blades. As a precaution, PPL Susquehanna also took Unit 1 out of service in mid-May to inspect that unit's turbine blades. This inspection revealed cracked blades similar to those found in Unit 2. Replacement of these blades was completed, significantly extending these outages. The after-tax earnings impact, including reduced energy sales margins and repair expense for both units was $63 million for the nine months ended September 30, 2011.
(e) Represents LKE acquisition-related costs and 2010 Bridge Facility financing costs.
(f) A portion of the goodwill related to the 2010 LKE acquisition has been attributed to PPL's Supply segment.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of shares outstanding that are increased for additional shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the treasury stock method. In 2011 and 2010, these securities included stock options, performance units granted under incentive compensation plans and the 2010 Purchase Contract component of the 2010 Equity Units. Additionally, in 2011, these securities included the 2011 Purchase Contract component of the 2011 Equity Units. The 2011 Purchase Contracts will be dilutive under the treasury stock method if the average VWAP of PPL's common stock for a certain period exceeds approximately $30.99. The 2010 Purchase Contracts will be dilutive under the treasury stock method if the average VWAP of PPL's common stock for a certain period exceeds $28.80. The 2011 and 2010 Purchase Contracts were excluded from the diluted EPS calculations because they did not meet this criteria during the three and nine months ended September 30, 2011 and 2010. Subject to antidilution adjustments at September 30, 2011, the maximum number of shares issuable to settle the Purchase Contracts was 103,372,695 shares, including 86,552,565 shares that could be issued under standard provisions of the Purchase Contracts and 16,820,130 shares that could be issued under make-whole provisions in the event of early settlement upon a Fundamental Change. See Note 7 for additional information on the 2011 Equity Units.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended September 30 used in the EPS calculation are:

	Three Months		Nine Months	
	2011	2010	2011	2010
Income (Numerator)				
Income from continuing operations after income taxes attributable to PPL	$ 444	$ 301	$ 1,039	$ 621
Less amounts allocated to participating securities	2	1	4	2
Income from continuing operations after income taxes available to PPL common shareowners	$ 442	$ 300	$ 1,035	$ 619
Income (loss) from discontinued operations (net of income taxes) available to PPL	$	$ (53)	$ 2	$ (38)
Net income attributable to PPL	$ 444	$ 248	$ 1,041	$ 583
Less amounts allocated to participating securities	2	1	4	2
Net income available to PPL common shareowners	$ 442	$ 247	$ 1,037	$ 581
Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	577,595	482,552	541,135	414,068
Add incremental non-participating securities:				
Stock options and performance units	459	210	345	219
Weighted-average shares - Diluted EPS	578,054	482,762	541,480	414,287
Basic EPS				
Available to PPL common shareowners:				
Income from continuing operations after income taxes	$ 0.76	$ 0.62	$ 1.91	$ 1.49
Income (loss) from discontinued operations (net of income taxes)		(0.11)	0.01	(0.09)
Net Income	$ 0.76	$ 0.51	$ 1.92	$ 1.40
Diluted EPS				
Available to PPL common shareowners:				
Income from continuing operations after income taxes	$ 0.76	$ 0.62	$ 1.91	$ 1.49
Income (loss) from discontinued operations (net of income taxes)		(0.11)		(0.09)
Net Income	$ 0.76	$ 0.51	$ 1.91	$ 1.40

For the periods ended September 30 the following options to purchase PPL common stock and performance units were excluded from the computations of diluted EPS because the effect would have been antidilutive.

	Three Months		Nine Months	
(Shares in thousands)	2011	2010	2011	2010
Stock options	4,473	5,194	5,377	4,844
Performance units	3		3	61

During the three and nine months ended September 30, 2011, PPL issued 17,311 and 410,283 shares of common stock related to the exercise of stock options, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors under its stock-based compensation plans. In addition, PPL issued 561,918 and 1,741,827 shares of common stock related to its DRIP during the three and nine months ended September 30, 2011. PPL also issued 301,319 shares related to its ESOP during the nine months ended September 30, 2011 .

See Note 7 for information on the April 2011 issuance of common stock and 2011 Equity Units.

5. Income Taxes

Reconciliations of income tax expense for the periods ended September 30 are:

(PPL)

	Three Months		Nine Months	
	2011	2010	2011	2010
Reconciliation of Income Tax Expense				
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 196	$ 114	$ 518	$ 277
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	8	17	47	32
State valuation allowance adjustments (a)			11	(8)
Impact of lower U.K. income tax rates	(12)	(8)	(31)	(15)
U.S. income tax on foreign earnings - net of foreign tax credit (b)	(10)	(8)	(25)	(14)
Federal and state tax reserve adjustments (c)	4	(52)	1	(59)
Foreign tax reserve adjustments (d)	2	24	2	46
Domestic manufacturing deduction (e)		(12)		(24)
Health Care Reform (f)				8
Foreign losses resulting from restructuring (d)		(27)		(52)
Enactment of the U.K.'s Finance Act of 2011 and 2010 (g)	(69)	(19)	(69)	(19)
Federal income tax credits	(4)	(4)	(11)	(8)
Amortization of investment tax credit	(2)		(6)	(2)
Depreciation not normalized (a)	(1)	(1)	(7)	(1)
Nondeductible acquisition-related costs (h)	1		9	
Other	(3)	(5)	(10)	(9)
Total increase (decrease)	(86)	(95)	(89)	(125)
Total income taxes from continuing operations	$ 110	$ 19	$ 429	$ 152

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. Due to the reduction in projected Pennsylvania taxable income for tax years 2011 and 2012 related to the 100% bonus depreciation deduction, PPL adjusted its deferred tax valuation allowances for Pennsylvania net operating losses by $11 million in the first quarter of 2011.

Additionally, the 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation.

(b) During the three and nine months ended September 30, 2011, PPL recorded a $7 million and $21 million federal income tax benefit related to U.K. pension contributions.

(c) In 1997, the U.K. imposed a Windfall Profits Tax on privatized utilities, including WPD. In September 2010, the U.S. Tax Court ruled in PPL's favor in a pending dispute with the IRS, concluding that the U.K. Windfall Profits Tax is a creditable tax for U.S. tax purposes. As a result and with the finalization of other issues, PPL recorded a $42 million tax benefit which impacted federal and state income tax reserves and related deferred income taxes during the third quarter of 2010. In January 2011, the IRS appealed the U.S. Tax Court's decision to the U.S. Court of Appeals for the Third Circuit.

In July 2010, the U.S. Tax Court ruled in PPL's favor in a pending dispute with the IRS, concluding that street lighting assets of PPL Electric are depreciable for tax purposes over seven years. As a result, PPL recorded a $7 million tax benefit to federal and state income tax reserves and related deferred income taxes in the third quarter of 2010.

See "Tax Litigation" below for additional information.

(d) During the three and nine months ended September 30, 2010, PPL recorded $27 million and $52 million in foreign tax benefits and related adjustments to foreign tax reserves of $24 and $46 million in conjunction with losses resulting from restructuring in the U.K. These losses offset tax on a deferred gain from a prior year sale of WPD's supply business.

(e) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation eliminates the estimated tax benefit related to the domestic manufacturing deduction in 2011.

(f) Beginning in 2013, provisions within Health Care Reform eliminated the income tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, PPL recorded deferred income tax expense in the first quarter of 2010. See Note 9 for additional information.

(g) The U.K.'s Finance Act of 2011, enacted in July 2011, included reductions in the U.K. statutory income tax rate. The statutory income tax rate was reduced from 27% to 26% retroactive to April 1, 2011 and will be reduced from 26% to 25% effective April 1, 2012. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit in the third quarter of 2011 to comprehend both rate decreases.

The U.K.'s Finance Act of 2010, enacted in July 2010, included a reduction in the U.K. statutory income tax rate. Effective April 1, 2011, the statutory income tax rate was reduced from 28% to 27%. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit in the third quarter of 2010.

(h) During the three and nine months ended September 30, 2011, PPL recorded nondeductible acquisition-related costs (primarily the U.K. stamp duty tax) associated with its acquisition of WPD Midlands. See Note 8 for additional information on the acquisition.

PPL has evaluated the impact of the change in earnings estimates on its projected annual effective tax rate. The result of the change in estimate reduced income tax expense for the three months ended September 30, 2011 by $18 million ($0.03 per share, basic and diluted).

(PPL Energy Supply)

	Three Months		Nine Months	
	2011	2010	2011	2010
Reconciliation of Income Tax Expense				
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 96	$ 107	$ 272	$ 189
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	11	15	38	27
State valuation allowance adjustments (a)			6	
Federal and state tax reserve adjustments	1	(11)	2	(11)
Domestic manufacturing deduction (b)		(12)		(24)
Health Care Reform (c)				5
Federal income tax credits	(5)	(4)	(11)	(7)
Other	1	(2)	(2)	(1)
Total increase (decrease)	8	(14)	33	(11)
Total income taxes from continuing operations	$ 104	$ 93	$ 305	$ 178

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. Due to the reduction in projected Pennsylvania taxable income for tax years 2011 and 2012 related to the 100% bonus depreciation deduction, PPL Energy Supply adjusted its deferred tax valuation allowances for Pennsylvania net operating losses in the first quarter of 2011.

(b) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation eliminates the estimated tax benefit related to the domestic manufacturing deduction in 2011.

(c) Beginning in 2013, provisions within Health Care Reform eliminated the income tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, PPL Energy Supply recorded deferred income tax expense in the first quarter of 2010. See Note 9 for additional information.

(PPL Electric)

	Three Months		Nine Months	
	2011	2010	2011	2010
Reconciliation of Income Tax Expense				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 16	$ 19	$ 64	$ 53
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	2	3	9	7
Federal and state tax reserve adjustments (a)	(2)	(6)	(6)	(10)
Federal and state income tax return adjustments			(2)	
Depreciation not normalized (b)	(1)	(1)	(6)	(1)
Other	(1)		(3)	(2)
Total increase (decrease)	(2)	(4)	(8)	(6)
Total income taxes	$ 14	$ 15	$ 56	$ 47

(a) In July 2010, the U.S. Tax Court ruled in PPL Electric's favor in a pending dispute with the IRS, concluding that street lighting assets are depreciable for tax purposes over seven years. As a result, PPL Electric recorded a $7 million tax benefit which impacted federal and state income tax reserves and related deferred income taxes in the third quarter of 2010. See "Tax Litigation" below for additional information.

(b) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. The 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation.

(LKE)

	Three Months		Nine Months	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
Reconciliation of Income Tax Expense				
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 50	$ 56	$ 120	$ 108
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	4	6	11	10
Other	(2)	(3)	(6)	(6)
Total increase (decrease)	2	3	5	4
Total income taxes from continuing operations	$ 52	$ 59	$ 125	$ 112

(LG&E)

	Three Months		Nine Months	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
Reconciliation of Income Tax Expense				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 23	$ 33	$ 56	$ 58
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	2	4	5	6
Other	(1)	(2)	(3)	(4)
Total increase (decrease)	1	2	2	2
Total income taxes	$ 24	$ 35	$ 58	$ 60

(KU)

	Three Months		Nine Months	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
Reconciliation of Income Tax Expense				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 31	$ 30	$ 79	$ 72
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3	3	7	8
Other	(2)	(1)	(4)	(4)
Total increase (decrease)	1	2	3	4
Total income taxes	$ 32	$ 32	$ 82	$ 76

Unrecognized Tax Benefits *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

Changes to unrecognized tax benefits for the periods ended September 30 were as follows.

	Three Months		Nine Months	
	2011	2010	2011	2010
PPL				
Beginning of period	$ 250	$ 224	$ 251	$ 212
Additions based on tax positions of prior years	1		2	4
Reductions based on tax positions of prior years	(14)	(50)	(14)	(56)
Additions based on tax positions related to the current year	4	13	4	43
Reductions based on tax positions related to the current year	(1)	(1)	(3)	(6)
Settlements		(11)		(12)
Lapse of applicable statutes of limitation	(3)	(2)	(8)	(6)
Effects of foreign currency translation	(2)	5	3	(1)
End of period (a)	$ 235	$ 178	$ 235	$ 178
PPL Energy Supply				
Beginning of period	$ 28	$ 142	$ 183	$ 124
Additions based on tax positions of prior years				2
Reductions based on tax positions of prior years		(43)		(47)
Additions based on tax positions related to the current year		13		43
Reductions based on tax positions related to the current year				(3)
Settlements				(1)
Derecognize unrecognized tax benefits (b)			(155)	
Effects of foreign currency translation		5		(1)
End of period	$ 28	$ 117	$ 28	$ 117

	Three Months		Nine Months	
	2011	2010	2011	2010
PPL Electric				
Beginning of period	$ 56	$ 68	$ 62	$ 74
Additions based on tax positions of prior years				2
Reductions based on tax positions of prior years		(7)		(9)
Reductions based on tax positions related to the current year		(1)	(1)	(3)
Lapse of applicable statutes of limitation	(3)	(2)	(8)	(6)
End of period	$ 53	$ 58	$ 53	$ 58

(a) Unrecognized tax benefits at September 30, 2011 include $146 million of U.K. capital losses related to positions previously recorded on U.K. income tax returns. In October 2011, the U.K. tax authority accepted these capital loss positions. As a result, in the fourth quarter of 2011, PPL expects to reverse this unrecognized tax benefit and expects to record a valuation allowance for this amount against the deferred tax asset that results from an increase in capital loss carry forwards.

(b) Represents unrecognized tax benefits derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 8 for additional information on the distribution.

LKE's, LG&E's and KU's unrecognized tax benefits and changes in those unrecognized tax benefits are insignificant for the three and nine months ended September 30, 2011 and 2010.

At September 30, 2011, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase or decrease by the following amounts. For LKE, LG&E and KU, no significant changes in unrecognized tax benefits are projected over the next 12 months.

	Increase	Decrease
PPL	$ 23	$ 216
PPL Energy Supply		26
PPL Electric	26	41

These potential changes could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the creditability of foreign taxes, the timing and utilization of foreign tax credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

At September 30, the total unrecognized tax benefits and related indirect effects that, if recognized, would decrease the effective tax rate were as follows. The amounts for LKE, LG&E and KU were insignificant.

	2011	2010
PPL	$ 172	$ 116
PPL Energy Supply	12	102
PPL Electric	9	14

Other *(PPL, PPL Energy Supply and PPL Electric)*

PPL changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year for the Pennsylvania generation, transmission and distribution operations. The same change was made for the Montana generation operations for 2009.

In August 2011, the IRS issued Rev. Procs. 2011-42 and 2011-43. Rev. Proc. 2011-42 provides guidance regarding the use and evaluation of statistical samples and sampling estimates. Rev. Proc. 2011-43 provides a safe harbor method of determining whether certain expenditures for electric transmission and distribution property can be currently deducted for tax purposes. No guidance was issued related to generation property.

If PPL adopts the safe harbor method of Rev. Proc. 2011-43, the amount of deductible versus capitalizable expenditures will likely be different from PPL's current method. While PPL has not yet completed its analysis of this guidance, it does not believe any resulting adjustment to unrecognized tax benefits or income tax liabilities will have a significant impact on net income.

Tax Litigation (*PPL and PPL Electric)*

In January 2011, the IRS appealed, to the U.S. Court of Appeals for the Third Circuit, the U.S. Tax Court's decision that the 1997 U.K. Windfall Profits Tax (WPT) is a creditable tax for U.S. Federal income tax purposes. In its decision, the Tax Court ruled on two issues: (1) the 1997 U.K. WPT imposed on all U.K. privatized utilities, including PPL's U.K. subsidiary, was creditable against the Company's U.S. income taxes; and (2) PPL Electric's street lighting assets could be depreciated for tax purposes over seven years as permitted for "property without a class life" instead of the 20-year depreciation recovery period argued by the IRS. The IRS did not appeal the street lighting decision. PPL filed its tax returns for 1997 and all intervening years on the basis that the WPT was creditable and that the appropriate tax depreciable life for its street lighting assets was seven years. Therefore, the cash benefit resulting from these items has already been realized.

6. Utility Rate Regulation

(PPL, PPL Electric, LKE, LG&E and KU)

The following tables provide information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

	PPL		PPL Electric	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Current Regulatory Assets:				
Generation supply charge (a)		$ 45		$ 45
Universal service rider	$ 3	10	$ 3	10
Fuel adjustment clause	10	3		
Other	6	27		8
Total current regulatory assets	$ 19	$ 85	$ 3	$ 63
Noncurrent Regulatory Assets:				
Defined benefit plans	$ 586	$ 592	$ 256	$ 262
Taxes recoverable through future rates	270	254	270	254
Storm costs	132	129	6	7
Unamortized loss on debt	113	61	80	27
Interest rate swaps	66	43		
Accumulated cost of removal of utility plant (b)	46	35	46	35
Coal contracts (c)	14	22		
Other	50	44	5	7
Total noncurrent regulatory assets	$ 1,277	$ 1,180	$ 663	$ 592
Current Regulatory Liabilities:				
Coal contracts (c)	$ 12	$ 46		
Generation supply charge (a)	37		$ 37	
ECR	8	12		
PURTA tax	3	10	3	$ 10
DSM	10	10		
Transmission service charge	1	8	1	8
Other	12	23	5	
Total current regulatory liabilities	$ 83	$ 109	$ 46	$ 18
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	$ 646	$ 623		
Coal contracts (c)	188	213		
Power purchase agreement - OVEC (c)	118	124		
Net deferred tax assets	37	40		
Act 129 compliance rider	13	14	$ 13	$ 14
Defined benefit plans	10	10		
Other	8	7		
Total noncurrent regulatory liabilities	$ 1,020	$ 1,031	$ 13	$ 14

	LKE		LG&E		KU	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Current Regulatory Assets:						
ECR		$ 5		$ 5		
Coal contracts (c)	$ 1	5		1	$ 1	$ 4
Gas supply clause	5	4	$ 5	4		
Fuel adjustment clause	10	3	5	3	5	
Virginia fuel factor		5				5
Total current regulatory assets	$ 16	$ 22	$ 10	$ 13	$ 6	$ 9
Noncurrent Regulatory Assets:						
Defined benefit plans	$ 330	$ 330	$ 213	$ 213	$ 117	$ 117
Storm costs	126	122	67	65	59	57
Unamortized loss on debt	33	34	21	22	12	12
Interest rate swaps	66	43	66	43		
Coal contracts (c)	14	22	6	8	8	14
Other	45	37	17	16	28	21
Total noncurrent regulatory assets	$ 614	$ 588	$ 390	$ 367	$ 224	$ 221
Current Regulatory Liabilities:						
Coal contracts (c)	$ 12	$ 46	$ 8	$ 31	$ 4	$ 15
ECR	8	12	1		7	12
DSM	10	10	6	5	4	5
Other	7	23	5	15	2	8
Total current regulatory liabilities	$ 37	$ 91	$ 20	$ 51	$ 17	$ 40
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	$ 646	$ 623	$ 284	$ 275	$ 362	$ 348
Coal contracts (c)	188	213	80	87	108	126
Power purchase agreement - OVEC (c)	118	124	82	86	36	38
Net deferred tax assets	37	40	32	34	5	6
Defined benefit plans	10	10			10	10
Other	8	7	3	1	5	6
Total noncurrent regulatory liabilities	$ 1,007	$ 1,017	$ 481	$ 483	$ 526	$ 534

(a) PPL Electric's generation supply charge recovery mechanism moved from an undercollected status at December 31, 2010 to an overcollected status at September 30, 2011, reflecting the impacts of changes in customer billing cycles, the timing of rate reconciliation filings, the levels of customers choosing alternative energy suppliers and other factors. Because customer rates are designed to collect the costs of PPL Electric's energy purchases to meet its PLR requirements, there is minimal impact on earnings.

(b) The December 31, 2010 balance of accumulated cost of removal of utility plant was reclassified from "Accumulated depreciation - regulated utility plant" to noncurrent "Regulatory assets" on the Balance Sheets. These costs will continue to be included in future rate proceedings.

(c) These regulatory assets and liabilities were recorded as offsets to certain intangible assets and liabilities that were recorded at fair value upon the acquisition of LKE.

Regulatory Matters

Kentucky Activities *(PPL, LKE, LG&E and KU)*

Environmental Upgrades

In order to achieve compliance with new and pending federal EPA regulations including CSAPR, National Ambient Air Quality Standards and the MACT rule, in June 2011, LG&E and KU filed ECR plans with the KPSC requesting approval to install environmental upgrades for their coal-fired plants and for recovery of the expected $2.5 billion in associated capital costs, as well as operating expenses, as incurred. The ECR plans detail upgrades that will be made to certain of their coal-fired generating stations to continue to be compliant with EPA regulations.

LG&E requested $1.4 billion to modernize the sulfur dioxide scrubbers at the Mill Creek generating station as well as install fabric-filter baghouse systems for increased particulate and mercury control on all units at Mill Creek and for Unit 1 at Trimble County. In its KPSC application, LG&E estimated the impact on rates to LG&E's electric customers to be an increase of 2.3% in 2012, growing to an increase of 19.2% by 2016. KU requested $1.1 billion for upgrades that include fabric-filter baghouse systems for increased particulate and mercury control on units at the E.W. Brown and Ghent generating stations and the conversion of a wet storage facility to a dry landfill at the E.W. Brown generating station. In its KPSC application, KU estimated the impact on rates to KU's electric customers to be an increase of 1.5% in 2012, growing to an increase of 12.2% by 2016.

Certain parties have been granted intervenor status in the ECR proceedings. The KPSC issued a procedural schedule under which data discovery is expected to continue into the fourth quarter. A KPSC order is anticipated to be issued in December 2011. LG&E and KU cannot predict the outcome of these proceedings.

IRP

IRP regulations in Kentucky require major utilities to make triennial IRP filings with the KPSC. In April 2011, LG&E and KU filed their 2011 joint IRP with the KPSC. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information. In May 2011, the KPSC issued a procedural schedule and data discovery will continue through the fourth quarter. Pursuant to a December 2008 Order, KU filed the 2011 joint IRP with the VSCC in September 2011, with certain supplemental information as required by this Order. The IRP assumes approximately 500 MW of peak demand reductions by 2017 through existing or expanded DSM or energy efficiency programs. Implementation of the major findings of the IRP is subject to further analysis and decision-making and further regulatory approvals.

CPCN Filing

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run station site. KU will own a 78% undivided interest, and LG&E will own a 22% undivided interest, in the new NGCC. In addition, LG&E and KU also requested approval to purchase three additional natural gas combustion turbines from Bluegrass Generation Company, L.L.C. that are expected to provide up to 495 MW of peak generation supply (the Bluegrass Plant). In conjunction with these developments, at the end of 2015 LG&E and KU anticipate retiring three coal-fired generating units at LG&E's Cane Run station and also coal-fired generating units at KU's Tyrone and Green River stations. These generating stations represent 797 MW of combined summer capacity.

LG&E and KU anticipate that the NGCC construction and Bluegrass Plant acquisition could require up to $800 million (comprised of up to $300 million for LG&E and up to $500 million for KU) in capital costs including related transmission projects. Formal requests for recovery of the costs associated with the NGCC and Bluegrass Plant acquisition were not included in the CPCN filing with the KPSC, but are expected to be included in a future base rate case filing. The KPSC issued an Order on the procedural schedule in the CPCN filing that has discovery, but no hearing, scheduled through early February 2012. A KPSC order on the CPCN filing is anticipated in the second quarter of 2012.

DSM/Energy Efficiency

In April 2011, LG&E and KU filed a DSM application to expand existing energy efficiency programs and implement new energy efficiency programs. Discovery and evidentiary phases have been completed and a KPSC order is anticipated during the fourth quarter of 2011. Any increase in rates will not be implemented until an order is issued by the KPSC.

PPL's Acquisition of LKE

In September 2010, the KPSC approved a settlement agreement among PPL and all of the intervening parties to PPL's joint application to the KPSC for approval of its acquisition of ownership and control of LKE, LG&E and KU. In the settlement agreement, the parties agreed that LG&E and KU would commit that no base rate increases would take effect before January 1, 2013. Under the terms of the settlement, LG&E and KU retain the right to seek KPSC approval for the deferral of "extraordinary and uncontrollable costs," such as significant storm restoration costs, if incurred. Additionally, interim rate adjustments will continue to be permissible during that period for existing recovery mechanisms such as the ECR and DSM.

Storm Costs (PPL, LKE and LG&E)

In August 2011, a strong storm hit LG&E's service area causing significant damage and widespread outages for approximately 139,000 customers. LG&E filed an application with the KPSC in September 2011, requesting approval of a regulatory asset recorded to defer, for future recovery, $7 million in incremental operation and maintenance expenses related to the storm restoration. The KPSC has issued a procedural schedule for discovery relating to the application during the fourth quarter.

Virginia Activities *(PPL, LKE and KU)*

Rate Case

In April 2011, KU filed an application with the VSCC requesting an annual increase in electric base rates for its Virginia jurisdictional customers of $9 million, or 14%. The proposed increase reflected a rate of return on rate base of 8%, based on a return on equity of 11%, inclusive of expenditures to complete TC2, all new sulfur dioxide scrubbers, recovery over five years of a 2009 storm regulatory asset and various other adjustments to revenue and expenses for the test year ended December 31, 2010. In September 2011, a settlement stipulation was reached between KU and the VSCC Staff and filed with the VSCC for consideration. In October 2011, the VSCC approved the stipulation with two modifications that were accepted by KU. The VSCC issued an Order closing the proceeding in October 2011. The approved annual revenue increase is $7 million with new base rates effective November 1, 2011.

Levelized Fuel Factor

In February 2011, KU filed an application with the VSCC seeking approval of an increase in its fuel cost factor beginning with service rendered in April 2011. In March 2011, a hearing was held on KU's requested fuel factor and an Order was issued approving a revised fuel factor to be in effect beginning with service rendered on and after April 1, 2011, with recovery of the regulatory asset for prior period under-recoveries over a three-year period.

Storm Costs

In December 2009, a major snowstorm hit KU's Virginia service area causing approximately 30,000 customer outages. During the normal 2009 Virginia Annual Information Filing (AIF), KU requested that the VSCC establish a regulatory asset and defer for future recovery $6 million in incremental operation and maintenance expenses related to the storm restoration. In March 2011, the VSCC Staff issued its report on KU's 2009 AIF stating that it considered this storm damage to be extraordinary, non-recurring and material to KU. The Staff Report also recommended establishing a regulatory asset for these costs, with recovery over a five-year period upon approval in the next base rate case. In March 2011, a regulatory asset of $6 million was established for actual costs incurred. In June 2011, the VSCC issued an Order approving the recommendations contained in the Staff Report.

Pennsylvania Activities

(PPL and PPL Electric)

Act 129

Act 129 requires Pennsylvania electric utilities to meet specified goals for reduction in customer electricity usage and peak demand by specified dates. Utilities not meeting the requirements of Act 129 are exposed to significant penalties.

Under Act 129, Electric Distribution Companies (EDCs) must develop and file an energy efficiency and conservation plan (EE&C Plan) with the PUC and contract with conservation service providers to implement all or a portion of the EE&C Plan. Act 129 requires EDCs to cause reduced overall electricity consumption of 1.0% by 2011 and 3.0% by 2013, and reduced peak demand of 4.5% for the 100 hours of highest demand by 2013. To date, PPL Electric has met the 2011 requirement, subject to the PUC's verification. EDCs will be able to recover the costs (capped at 2% of the EDC's 2006 revenue) of implementing their EE&C Plans. In October 2009, the PUC approved PPL Electric's EE&C Plan. The plan includes 14 programs, all of which are voluntary for customers. The plan includes a proposed rate mechanism for recovery of all costs incurred by PPL Electric to implement the plan. In September 2010, PPL Electric filed its Program Year 1 Annual Report and Process Evaluation Report. PPL Electric also filed a petition requesting permission to modify two components of its EE&C Plan. The PUC issued its Final Order in January 2011, approving the changes proposed by PPL Electric and directing PPL Electric to re-file its plan to reflect all changes made since its initial approval. In February 2011, PPL Electric filed the changes to its plan and in May 2011, the PUC approved those changes.

Act 129 also requires installation of smart meters for new construction, upon the request of consumers at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs will be able to recover the costs of providing smart metering technology. In August 2009, PPL Electric filed its proposed smart meter technology procurement and installation plan with the PUC. All of PPL Electric's metered customers currently have smart meters installed at their service locations, and PPL Electric's current advanced metering technology generally satisfies the requirements of Act 129 and does not need to be replaced. In June 2010, the PUC entered its order approving PPL Electric's smart meter plan with several modifications. In compliance with the Order, in the third quarter of 2010, PPL Electric submitted a revised plan with a cost estimate of $38 million to be incurred over a five-year period, beginning in 2009, and filed a rider to recover these costs beginning January 1, 2011. In December 2010, the PUC approved PPL Electric's rate rider to recover the costs of its smart meter program. In August 2011, PPL Electric filed with the PUC an annual report describing the actions it is taking under its smart meter plan in 2011 and will take in 2012. PPL Electric also submitted proposed Smart Meter Rider charges to be effective January 1, 2012.

Act 129 also requires the Default Service Provider (DSP) to provide electric generation supply service to customers pursuant to a PUC-approved competitive procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (4 to 20 years), with long-term contracts limited to up to 25% of the load unless otherwise approved by the PUC). The DSP will be able to recover the costs associated with a competitive procurement plan.

Under Act 129, the DSP competitive procurement plan must ensure adequate and reliable service "at least cost to customers" over time. Act 129 grants the PUC authority to extend long-term power contracts up to 20 years, if necessary, to achieve the "least cost" standard. The PUC has approved PPL Electric's procurement plan for the period January 1, 2011 through May 31, 2013, and PPL Electric has begun purchasing under that plan. In December 2010, the PUC approved PPL Electric's rate rider to recover the costs of providing default service.

PUC Investigation of Retail Market

In April 2011, the PUC opened an investigation of Pennsylvania's retail electricity market which will be conducted in two phases. Phase one will address the status of the current retail market and explore potential changes. Questions promulgated by the PUC for this phase of the investigation focus primarily on default service issues. In June 2011, interested parties filed comments and the PUC held a hearing in this phase of the investigation. In July 2011, the PUC entered an order initiating phase two of the investigation which will study how best to address issues identified by the PUC as being most relevant to improving the current retail electricity market. The PUC issued a tentative order in October 2011 addressing issues associated with the timing and various other details of EDCs' default service procurement plans. Parties will have an opportunity to comment on that tentative order. The PUC also has scheduled a hearing in this phase of the investigation in November 2011. It is likely that investigation will not be completed before the end of the year. PPL Electric cannot predict the outcome of the investigation.

Legislation - Regulatory Procedures and Mechanisms

In June 2011, the Pennsylvania House Consumer Affairs Committee approved legislation that would authorize the PUC to approve regulatory procedures and mechanisms to provide for more timely recovery of a utility's costs. Those procedures and mechanisms include, but are not limited to, the use of a fully projected test year and an automatic adjustment clause to recover certain capital costs and related operating expenses. In October 2011, the legislation was passed by the Pennsylvania House of Representatives. It will now be considered by the Pennsylvania Senate. PPL Electric is working with other stakeholders to support passage of this legislation.

Unamortized Loss on Debt

As further discussed in Note 7, in July 2011 PPL Electric redeemed Senior Secured Bonds for $458 million, plus accrued interest. The redemption premium and the unamortized financing costs of $59 million were recorded as a regulatory asset which will be amortized over the life of the replacement debt.

Storm Recovery

PPL Electric experienced several PUC-reportable storms during the three and nine months ended September 30, 2011 resulting in total restoration costs of $34 million and $59 million, of which $23 million and $39 million were recorded in "Other operation and maintenance" on the Statement of Income. Although PPL Electric has storm insurance with a PPL affiliate, the costs associated with the unusually high number of PUC-reportable storms has exceeded policy limits. Probable insurance recoveries recorded during the three and nine months ended September 30, 2011 were $12 million and $26.5 million, of which $7 million and $16 million were included in "Other operation and maintenance" on the Statement of Income. In November 2011, PPL Electric filed with the PUC a request for permission to defer $15 to $20 million for future recovery of allowable storm-related costs. At the time PPL Electric seeks recovery of any deferred amount, its claim will be based on the actual costs, net of insurance recoveries. A regulatory asset, for the actual costs net of insurance recoveries, will be recorded at such time as an order is received from the PUC approving deferral of these costs.

In late October 2011, PPL Electric experienced significant damage to its transmission and distribution network from a severe snow storm. The costs associated with the restoration efforts are still being determined and are not included in the amounts disclosed above. PPL Electric will evaluate such costs, when quantified, and will likely file with the PUC for permission to defer certain of the costs incurred to repair the distribution network for future recovery. Costs incurred to repair the transmission network are recoverable through the FERC Formula Rate mechanism which is updated annually.

Transmission Service Charge Adjustment (PPL Electric)

During the three and nine months ended September 30, 2011, PPL Electric recorded a $7 million ($4 million after-tax) charge to "Retail electric" revenue on the Statement of Income to reduce a portion of the transmission service charge regulatory asset associated with a 2005 undercollection that was not included in any subsequent rate reconciliations filed with the PUC. PPL Electric plans to seek recovery with the PUC. However, management cannot assert at the present time that it is probable that the previously recorded regulatory asset will be recovered. The regulatory asset will be reinstated should the PUC approve recovery of these costs. The impact of this charge was not material to any previously reported financial statements and is not expected to be material to the financial statements for the full year of 2011.

Federal Matters

FERC Formula Rates (PPL and PPL Electric)

In May 2010, PPL Electric initiated the 2010 Annual Update of its formula rate. In November 2010, a group of municipal customers taking transmission service in PPL Electric's zone filed a preliminary challenge to the update, and in December 2010 they filed a formal challenge. In January 2011, PPL Electric filed a motion to dismiss a number of the challenges and submitted responses to all of the challenges. The group of municipal customers filed answers to PPL Electric's motion to dismiss and its responses to the formal challenge. In August 2011, the FERC issued an order rejecting the formal challenge and accepting PPL Electric's 2010 Annual Update; the group of municipal customers filed a request for rehearing of that order. In October 2011, the group of municipal customers filed a preliminary challenge to PPL Electric's 2011 Annual Update of its formula rate. PPL Electric will attempt to resolve the issues raised in this preliminary challenge. PPL Electric cannot predict the outcome of this proceeding which remains pending before the FERC.

International Activities *(PPL)*

U.K. Overhead Electricity Networks

In 2002, for safety reasons, the U.K. Government issued guidance that low voltage overhead electricity networks within three meters horizontal clearance of a building should either be insulated or relocated. This imposed a retroactive requirement on existing assets that were built with lower clearances. In 2008, the U.K. Government determined that the U.K. electricity network should comply with the issued guidance. WPD estimates that the cost of compliance will be approximately $124 million. The projected expenditures in the current regulatory period, April 1, 2010 through March 31, 2015, have been included in allowed revenues, and it is expected that expenditures beyond this five-year period (including WPD Midlands expenditures) will also be included in allowed revenues. The U.K. Government has determined that WPD (South Wales) and WPD Midlands should comply by 2015 and WPD (South West) by 2018.

To improve network reliability, the U.K. Government amended a regulation relating to safety and continuity of supply by adding an obligation which broadly requires, beginning January 31, 2009, network operators to implement a risk-based program to clear trees away from overhead lines. WPD estimates that the cost of compliance will be approximately $205 million over a 25-year period. The projected expenditures in the current regulatory period have been included in allowed revenues under the current price control review, and it is expected that expenditures beyond this five-year period will also be included in allowed revenues.

In addition to the above, WPD Midlands was not in compliance with earlier regulations pertaining to overhead line clearances as of the acquisition date. WPD Midlands expects to incur costs through 2015 to comply with these requirements that are not included in allowed revenues under the current price control review. In the three months ended September 30, 2011, WPD Midlands recorded a liability of $69 million associated with meeting these requirements as an opening balance sheet adjustment in accordance with accounting guidance for business combinations. See Note 8 for additional information.

New U.K. Pricing Model

The electricity distribution subsidiaries of WPD operate under distribution licenses and price controls granted and set by Ofgem for each of the distribution subsidiaries. The price control formula that governs allowed revenue is designed to provide economic incentives to minimize operating, capital and financing costs. The price control formula is normally determined every five years. Ofgem completed its review in December 2009 that became effective April 1, 2010 and will continue through March 31, 2015.

In October 2010, Ofgem announced a pricing model that will be effective for the U.K. electricity distribution sector beginning April 2015. The model, known as RIIO (Revenues = Incentives + Innovation + Outputs), is intended to encourage investment in regulated infrastructure. Key components of the model are: an extension of the price review period from five to eight years, increased emphasis on outputs and incentives, enhanced stakeholder engagement including network customers, a stronger incentive framework to encourage more efficient investment and innovation, expansion of the current Low Carbon Network Fund to stimulate innovation and continued use of a single weighted average cost of capital. At this time, management does not expect the impact of this pricing model to be significant to WPD's operating results.

7. Financing Activities

Credit Arrangements and Short-term Debt

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Credit facilities are maintained to enhance liquidity and provide credit support, and as a backstop to commercial paper programs, when necessary. The following credit facilities were in place at:

	September 30, 2011					December 31, 2010	
	Expiration Date	**Capacity**	**Borrowed (a)**	**Letters of Credit Issued**	**Unused Capacity**	**Borrowed (a)**	**Letters of Credit Issued**
PPL							
WPD Credit Facilities							
PPL WW Syndicated Credit Facility (b)	Jan. 2013	£ 150	£ 111	n/a	£ 39	£ 115	n/a
WPD (South West) Syndicated Credit Facility	July 2012	210		n/a	210		n/a
WPD (East Midlands) Syndicated Credit Facility (c)	Apr. 2016	300		£ 70	230	n/a	n/a
WPD (West Midlands) Syndicated Credit Facility (c)	Apr. 2016	300		71	229	n/a	n/a
Uncommitted Credit Facilities		81		3	78		£ 3
Total WPD Credit Facilities (d)		£ 1,041	£ 111	£ 144	£ 786	£ 115	£ 3
PPL Energy Supply (e)							
Syndicated Credit Facility (f)(l)	Dec. 2014	$ 3,000	$ 250	$ 132	$ 2,618	$ 350	
Letter of Credit Facility	Mar. 2013	200	n/a	76	124	n/a	$ 24
Structured Credit Facility (g)	Mar. 2011	n/a	n/a	n/a	n/a	n/a	161
Total PPL Energy Supply Credit Facilities		$ 3,200	$ 250	$ 208	$ 2,742	$ 350	$ 185
PPL Electric (e)							
Syndicated Credit Facility (l)	Dec. 2014	$ 200		$ 13	$ 187		$ 13
Asset-backed Credit Facility (h)	July 2012	150		n/a	150		n/a
Total PPL Electric Credit Facilities		$ 350		$ 13	$ 337		$ 13
LG&E (e) (i)							
Syndicated Credit Facility (j)(l)	Dec. 2014	$ 400			$ 400	$ 163	
KU (e) (i)							
Syndicated Credit Facility (j)(l)	Dec. 2014	$ 400			$ 400		$ 198
Letter of Credit Facility (k)	Apr. 2014	198	n/a	$ 198		n/a	n/a
Total KU Credit Facilities		$ 598		$ 198	$ 400		$ 198

(a) Amounts borrowed are recorded as "Short-term debt" on the Balance Sheets.

(b) The borrowing outstanding at September 30, 2011 was a USD-denominated borrowing of $178 million, which equated to £111 million at the time of borrowing and bore interest at approximately 1.05%.

(c) In April 2011, following the completion of the acquisition of WPD Midlands, WPD (East Midlands) and WPD (West Midlands) each entered into a £300 million 5-year syndicated credit facility. Under the facilities, WPD (East Midlands) and WPD (West Midlands) each have the ability to make cash borrowings and to request the lenders to issue up to £80 million of letters of credit in lieu of borrowing. Each company pays customary commitment and utilization fees under its respective facility, and borrowings generally bear interest at LIBOR-based rates plus a spread, depending upon the respective company's senior unsecured long-term debt rating. Each credit facility contains financial covenants that require the respective company to maintain an interest coverage ratio of consolidated earnings before interest, income taxes, depreciation and amortization to interest expense of at least 3.0 to 1 and total net debt not in excess of 85% of its RAV, in each case calculated in accordance with the credit facilities. An aggregate of $7 million in fees were incurred in connection with establishing these facilities.

(d) At September 30, 2011, the unused capacity of the WPD credit facilities was approximately $1.3 billion.

(e) All credit facilities at PPL Energy Supply, PPL Electric, LG&E and KU also apply to PPL on a consolidated basis for financial reporting purposes.

(f) The borrowings outstanding at September 30, 2011 bear interest at a weighted average rate of approximately 2.48%.

(g) In March 2011, PPL Energy Supply's $300 million Structured Credit Facility expired. PPL Energy Supply's obligations under this facility were supported by a $300 million letter of credit issued on PPL Energy Supply's behalf under a separate but related $300 million 5-year credit agreement, which also expired in March 2011.

(h) PPL Electric participates in an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary has pledged these assets to secure loans from a commercial paper conduit sponsored by a financial institution.

At September 30, 2011 and December 31, 2010, $253 million and $248 million of accounts receivable and $81 million and $134 million of unbilled revenue were pledged by the subsidiary under the credit agreement related to PPL Electric's and the subsidiary's participation in the asset-backed commercial paper program. Based on the accounts receivable and unbilled revenue pledged at September 30, 2011, the amount available for borrowing under the facility was limited to $86 million. PPL Electric's sale to its subsidiary of the accounts receivable and unbilled revenue is an absolute sale of assets, and PPL Electric does not retain an interest in these assets. However, for financial reporting purposes, the subsidiary's financial results are consolidated in PPL Electric's financial statements. PPL Electric performs certain record-keeping and cash collection functions with respect to the assets in return for a servicing fee from the subsidiary.

In July 2011, PPL Electric and the subsidiary extended the expiration date of the credit agreement to July 2012.

(i) All credit facilities at LG&E and KU also apply to LKE on a consolidated basis for financial reporting purposes.

(j) In June 2011, these facilities were amended such that the fees and the spreads to benchmark interest rates for borrowings depend upon the respective company's senior secured long-term debt rating rather than the senior unsecured long-term debt rating.

(k) In April 2011, KU entered into a letter of credit facility that has been used to issue letters of credit to support outstanding tax-exempt bonds. The facility contains a financial covenant requiring KU's debt to total capitalization not to exceed 70%, as calculated in accordance with the credit facility. KU pays customary commitment and letter of credit fees under the new facility. In August 2011, KU amended its letter of credit facility such that the fees depend upon KU's senior secured long-term debt rating rather than its senior unsecured debt rating.

(l) In October 2011, PPL Energy Supply, PPL Electric, LG&E and KU each amended its respective syndicated credit facility. The amendments include extending the expiration dates from December 2014 to October 2016. Under these facilities, PPL Energy Supply, PPL Electric, LG&E and KU each continue to have the ability to make cash borrowings and to request the lenders to issue letters of credit.

(PPL and PPL Energy Supply)

PPL Energy Supply maintains a $500 million Facility Agreement expiring June 2017, whereby PPL Energy Supply has the ability to request up to $500 million of committed letter of credit capacity at fees to be agreed upon at the time of each request, based on certain market conditions. At September 30, 2011, PPL Energy Supply had not requested any capacity for the issuance of letters of credit under this arrangement.

PPL Energy Supply, PPL EnergyPlus, PPL Montour and PPL Brunner Island maintain an $800 million secured energy marketing and trading facility, whereby PPL EnergyPlus will receive credit to be applied to satisfy collateral posting obligations related to its energy marketing and trading activities with counterparties participating in the facility. The credit amount is guaranteed by PPL Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities to secure any amount they may owe under their guarantees. The facility expires in November 2015, but is subject to automatic one-year renewals under certain conditions. There were no secured obligations outstanding under this facility at September 30, 2011.

In October 2011, PPL Energy Supply re-activated its $500 million commercial paper program to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At November 4, 2011, PPL Energy Supply had $400 million of commercial paper outstanding at a weighted-average interest rate of approximately 0.51%, which was used to partially fund the repayment of PPL Energy Supply's 6.40% Senior Notes upon maturity discussed below.

(PPL and PPL Electric)

PPL Electric maintains a commercial paper program for up to $200 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility. PPL Electric had no commercial paper outstanding at September 30, 2011.

(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

See Note 11 for discussion of intercompany borrowings.

2011 Bridge Facility *(PPL)*

In March 2011, concurrently and in connection with entering into the agreement to acquire WPD Midlands, PPL entered into a commitment letter with certain lenders pursuant to which the lenders committed to provide PPL with 364-day unsecured bridge financing of up to £3.6 billion solely to (i) fund the acquisition and (ii) pay certain fees and expenses in connection with the acquisition. The bridge financing commitment was subsequently syndicated to a group of banks, including the initial commitment lenders. Upon the syndication of the commitment, in March 2011, PPL Capital Funding and PPL WEM, as borrowers, and PPL, as guarantor, entered into the £3.6 billion 2011 Bridge Facility. During the nine months ended September 30, 2011, PPL incurred $43 million of fees in connection with establishing the 2011 Bridge Facility, which is reflected in "Interest Expense" on the Statement of Income.

On April 1, 2011, concurrent with the closing of the WPD Midlands acquisition, PPL Capital Funding borrowed an aggregate of £1.75 billion and PPL WEM borrowed £1.85 billion under the 2011 Bridge Facility. Borrowings bore interest at approximately 2.62%, determined by one-month LIBOR rates plus a spread based on PPL Capital Funding's senior unsecured debt rating and the length of time from the date of the acquisition closing that borrowings were outstanding. See Note 8 for additional information on the acquisition.

In accordance with the terms of the 2011 Bridge Facility, PPL Capital Funding's borrowings of £1.75 billion were repaid with approximately $2.8 billion of proceeds received from PPL's issuance of common stock and 2011 Equity Units in April 2011, as discussed in "Long-term Debt and Equity Securities" below. In April 2011, PPL WEM repaid £650 million of its 2011 Bridge Facility borrowing. Such repayment was funded primarily with proceeds received from PPL WEM's issuance of senior notes, which is also discussed below. In May 2011, PPL WEM repaid the remaining £1.2 billion of borrowings then-outstanding under the 2011 Bridge Facility, primarily with the proceeds from senior notes issued by WPD (East Midlands) and WPD (West Midlands), as described below.

In anticipation of the repayment of a portion of the borrowings under the 2011 Bridge Facility with U.S. dollar proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of U.S. dollar-denominated senior notes, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. See Note 14 for further discussion.

Long-term Debt and Equity Securities

(PPL)

In connection with the closing of the acquisition of WPD Midlands, PPL assumed, through consolidation, £250 million of Senior Notes due 2040 (2040 Notes) previously issued by WPD (East Midlands), and £250 million of Senior Notes due 2025 (2025 Notes) previously issued by WPD (West Midlands), equating to an aggregate principal amount of approximately $800 million at the time of closing. The interest rates on the notes are subject to adjustment into June 2012 in the event of a rating change on the notes. The 2040 Notes currently bear interest at 5.75%, and the 2025 Notes currently bear interest at 6.00%. The maximum rate of interest allowable under the adjustment provisions is 6.50% for the 2040 Notes and 6.25% for the 2025 Notes. The notes may be put by the holders back to the respective issuer for redemption if the long-term credit ratings assigned to the notes by Moody's or S&P are withdrawn by either of the rating agencies or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or material adverse change to, the distribution license under which WPD (West Midlands) and WPD (East Midlands) operate.

In April 2011, PPL issued 92 million shares of its common stock at a public offering price of $25.30 per share, for a total of $2.328 billion. Proceeds from the issuance were $2.258 billion, net of the $70 million underwriting discount. PPL also issued 19.55 million 2011 Equity Units at a stated amount per unit of $50.00 for a total of $978 million. Proceeds from the issuance were $948 million, net of the $30 million underwriting discount. PPL used the net proceeds to repay PPL Capital Funding's borrowings under the 2011 Bridge Facility, as discussed above, to pay certain acquisition-related fees and expenses and for general corporate purposes.

Each 2011 Equity Unit consists of a 2011 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in $1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019 (2019 Notes).

Each 2011 Purchase Contract obligates the holder to purchase, and PPL to sell, for $50.00 a number of shares of PPL common stock to be determined by the average VWAP of PPL's common stock for the 20-trading day period ending on the third trading day prior to May 1, 2014, subject to antidilution adjustments and an early settlement upon a Fundamental Change as follows:

- if the average VWAP equals or exceeds approximately $30.99, then 1.6133 shares (a minimum of 31,540,015 shares);
- if the average VWAP is less than approximately $30.99 but greater than $25.30, a number of shares of common stock having a value, based on the average VWAP, equal to $50.00; and
- if the average VWAP is less than or equal to $25.30, then 1.9763 shares (a maximum of 38,636,665 shares).

If holders elect to settle the 2011 Purchase Contract prior to May 1, 2014, they will receive 1.6133 shares of PPL common stock, subject to antidilution adjustments and an early settlement upon a Fundamental Change.

A holder's ownership interest in the 2019 Notes is pledged to PPL to secure the holder's obligation under the related 2011 Purchase Contract. If a holder of a 2011 Purchase Contract chooses at any time no longer to be a holder of the 2019 Notes, such holder's obligation under the 2011 Purchase Contract must be secured by a U.S. Treasury security.

Each 2011 Purchase Contract also requires PPL to make quarterly contract adjustment payments at a rate of 4.43% per year on the $50.00 stated amount of the 2011 Equity Unit. PPL has the option to defer these contract adjustment payments until the 2011 Purchase Contract settlement date. Deferred contract adjustment payments will accrue additional contract adjustment payments at the rate of 8.75% per year until paid. Until any deferred contract adjustment payments have been paid, PPL may not declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, subject to certain exceptions.

The 2019 Notes are fully and unconditionally guaranteed by PPL as to payment of principal and interest. The 2019 Notes initially bear interest at 4.32% and are not subject to redemption prior to May 2016. Beginning May 2016, PPL Capital Funding may, at its option, redeem the 2019 Notes, in whole but not in part, at any time, at par plus accrued and unpaid interest. The 2019 Notes are expected to be remarketed in 2014 into two tranches, such that neither tranche will have an aggregate principal amount of less than the lesser of $250 million and 50% of the aggregate principal amount of the 2019 Notes to be remarketed. One tranche will mature on or about the third anniversary of the settlement of the remarketing, and the other tranche will mature on or about the fifth anniversary of such settlement. Upon a successful remarketing, the interest rate on the 2019 Notes may be reset and the maturity of the tranches may be modified as necessary. In connection with a remarketing, PPL Capital Funding may elect with respect to each tranche, to extend or eliminate the early redemption date and/or calculate interest on the notes of a tranche on a fixed or floating rate basis. If the remarketing fails, holders of the 2019 Notes will have the right to put their notes to PPL Capital Funding on May 1, 2014 for an amount equal to the principal amount plus accrued interest.

Prior to May 2016, PPL Capital Funding may elect at one or more times to defer interest payments on the 2019 Notes for one or more consecutive interest periods until the earlier of the third anniversary of the interest payment due date and May 2016. Deferred interest payments will accrue additional interest at a rate equal to the interest rate then applicable to the 2019 Notes. Until any deferred interest payments have been paid, PPL may not, subject to certain exceptions, (i) declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, (ii) make any payment of principal of, or interest or premium, if any, on, or repay, purchase or redeem any of its debt securities that upon its liquidation ranks equal with, or junior in interest to, the subordinated guarantee of the 2019 Notes by PPL as of the date of issuance and (iii) make any payments regarding any guarantee by PPL of securities of any of its subsidiaries (other than PPL Capital Funding) if the guarantee ranks equal with, or junior in interest to, the 2019 Notes as of the date of their issuance.

In the financial statements, the proceeds from the sale of the 2011 Equity Units were allocated to the 2019 Notes and the 2011 Purchase Contracts, including the obligation to make contract adjustment payments, based on the underlying fair value of each instrument at the time of issuance. As a result, the 2019 Notes were recorded at $978 million, which approximated fair value, as long-term debt. At the time of issuance, the present value of the contract adjustment payments of $123 million was recorded to other liabilities, representing the obligation to make contract adjustment payments, with an offsetting reduction to additional paid-in capital for the issuance of the 2011 Purchase Contracts, which approximated the fair value of each. The liability is being accreted through interest expense over the three-year term of the 2011 Purchase Contracts. The initial valuation of the contract adjustment payments is considered a non-cash transaction that is excluded from the Statement of Cash Flows in 2011. Costs to issue the 2011 Equity Units were primarily allocated on a relative cost basis, resulting in $25 million being recorded to "Additional paid-in capital" and $6 million being recorded to "Other noncurrent assets". See Note 4 for EPS considerations related to the 2011 Purchase Contracts.

Also in April 2011, PPL WEM issued $460 million of 3.90% Senior Notes due 2016 (2016 Notes) and $500 million of 5.375% Senior Notes due 2021 (2021 Notes). The 2016 Notes may be redeemed any time prior to maturity at PPL WEM's option at make-whole redemption prices. The 2021 Notes may be redeemed at PPL WEM's option at make-whole redemption prices until the date three months prior to maturity and at par thereafter. PPL WEM received proceeds of $953 million, net of discounts and underwriting fees, from the combined issuance of the notes. The net proceeds were used to repay a portion of PPL WEM's borrowing under the 2011 Bridge Facility as discussed above. In connection with the issuance of the senior notes, PPL WEM, through PPL, entered into cross currency interest rate swaps for the entire aggregate principal amount of each series of notes in order to hedge PPL WEM's risk of variability in the GBP functional currency equivalent cash flows related to its U.S. dollar interest and principal payments on the notes.

In May 2011, WPD (West Midlands) issued £800 million of 5.75% Senior Notes due 2032 (2032 Notes) and WPD (East Midlands) issued £600 million of 5.25% Senior Notes due 2023 (2023 Notes). WPD (West Midlands) and WPD (East Midlands) collectively received proceeds of £1.4 billion, which equated to $2.2 billion at the time of issuance, net of discounts and underwriting fees, from the combined debt issuances. A portion of the net proceeds were dividended to PPL WEM and used to repay the remaining balance of PPL WEM's borrowing under the 2011 Bridge Facility in May 2011 as discussed above. The balance of the net proceeds have been or will be used to pre-fund certain capital expenditures and for other general corporate purposes.

In June 2011, WPD (East Midlands) issued £100 million of Index-Linked Notes due 2043 (2043 Notes). The principal amount of the 2043 Notes is adjusted based on changes in a specified index, as detailed in the terms of the notes. WPD (East Midlands) received proceeds of £99 million, which equated to $163 million at the time of issuance, net of discounts and underwriting fees, from the issuance of the 2043 Notes. The majority of the net proceeds were used to repay short-term debt.

The 2032 Notes, the 2023 Notes, and the 2043 Notes may be put by the holders back to the respective issuer for redemption if the long-term credit ratings assigned to the notes by Moody's or S&P are withdrawn by either of the rating agencies or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or material adverse change to, the distribution license under which WPD (West Midlands) and WPD (East Midlands) operate.

(PPL and PPL Energy Supply)

In July 2011, PPL Energy Supply redeemed at par the entire $250 million aggregate principal amount of its 7.00% Senior Notes due 2046. PPL Energy Supply recorded a loss of $7 million, which is reflected in "Interest Expense" on the Statements of Income for 2011, as a result of accelerating the amortization of deferred financing fees in connection with the redemption.

In November 2011, PPL Energy Supply repaid the entire $500 million principal amount of its 6.40% Senior Notes upon maturity.

(PPL and PPL Electric)

In July 2011, PPL Electric issued $250 million of 5.20% First Mortgage Bonds due 2041. The bonds may be redeemed at PPL Electric's option at make-whole redemption prices until the date six months prior to maturity and at par thereafter. PPL Electric received proceeds of $246 million, net of discounts and underwriting fees. The net proceeds have been or will be used for capital expenditures and other general corporate purposes.

Also in July 2011, PPL Electric redeemed the entire $400 million aggregate principal amount of its 7.125% Senior Secured Bonds due 2013 for $458 million, plus accrued interest. PPL Electric recorded a regulatory asset for the redemption premium and unamortized financing costs associated with this debt. See Note 6 for additional information.

In August 2011, PPL Electric issued $400 million of 3.00% First Mortgage Bonds due 2021. The bonds may be redeemed at PPL Electric's option at make-whole redemption prices until the date three months prior to maturity and at par thereafter. PPL Electric received proceeds of $394 million, net of discounts and underwriting fees. The net proceeds were used to repay $250 million of short-term debt and to replenish cash used to redeem the 7.125% Senior Secured Bonds due 2013 in July 2011, as discussed above.

(PPL and LKE)

In September 2011, LKE issued $250 million of 4.375% Senior Notes due 2021. The notes were issued in a private offering to qualified institutional buyers and other transactions not subject to registration requirements under the Securities Act of 1933. In connection with the issuance, LKE entered into a registration rights agreement with representatives of the initial purchasers of the notes, pursuant to which LKE agreed to file, by late April 2012, a registration statement to exchange such notes for securities containing substantially identical terms (except for certain transfer restrictions), or in certain cases to file, by late April 2012, a registration statement covering resale of the notes. LKE also agreed, under its registration rights agreement, to (i) use its commercially reasonable efforts to cause the registration statement to be declared effective under the Securities Act by late July 2012 and (ii) upon effectiveness of the registration statement, take certain actions to promptly exchange the notes or, in the case of a registration statement covering resale of the notes, keep the registration statement effective until no later than late September 2012. Pursuant to the registration rights agreement, LKE may be required to pay liquidated damages if it does not meet certain requirements under its registration rights agreement. Liquidated damages will generally accrue with respect to the principal amount of the notes at a rate of 0.25% per annum for the first 90 days from and including the date on which a default specified under the registration rights agreement occurs, and increase by an additional 0.25% per annum thereafter, provided that the liquidated damages rate shall not at any time exceed 0.50% per annum.

Liquidated damages will cease to accrue when all registration defaults under the registration rights agreement have been cured, or if earlier, upon the redemption by the issuer or maturity of the notes.

The notes may be redeemed at LKE's option at make-whole redemption prices until the date three months prior to maturity and at par thereafter. LKE received proceeds of $248 million, net of discounts and underwriting fees. The net proceeds have been used to make a return of capital to PPL.

(PPL, LKE, LG&E and KU)

In April 2011, LKE, LG&E and KU each filed 2011 Registration Statements with the SEC, as agreed in registration rights agreements entered into in connection with the issuances of senior notes (in the case of LKE) and first mortgage bonds (in the case of LG&E and KU) in November 2010 in transactions not registered under the Securities Act of 1933. See Note 7 in PPL's 2010 Form 10-K for additional information on the original debt issuances. The 2011 Registration Statements relate to offers by the respective issuers to exchange the senior notes and first mortgage bonds issued in November 2010 with similar but registered securities. The 2011 Registration Statements became effective in June 2011, and the exchanges were completed in July 2011, with substantially all of LKE's senior notes and LG&E's and KU's first mortgage bonds being exchanged.

(PPL, LKE and LG&E)

In January 2011, LG&E remarketed $163 million of variable rate tax-exempt revenue bonds, which were issued on its behalf by Louisville/Jefferson County, Kentucky, to unaffiliated investors in a term rate mode, bearing interest at 1.90% into 2012. At December 31, 2010, such bonds were held by LG&E and reflected as "Short-term investments" on the Balance Sheet. The proceeds from the remarketing were used to repay a $163 million borrowing under LG&E's syndicated credit facility.

Legal Separateness

(PPL, PPL Energy Supply, PPL Electric and LKE)

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay the creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Energy Supply, PPL Electric and LKE are each separate legal entities. These subsidiaries are not liable for the debts of PPL Energy Supply, PPL Electric and LKE. Accordingly, creditors of PPL Energy Supply, PPL Electric and LKE may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL Energy Supply, PPL Electric and LKE are not liable for the debts of their subsidiaries, nor are their subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Energy Supply, PPL Electric and LKE (or their other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

Distributions and Capital Contributions

(PPL)

In August 2011, PPL declared its quarterly common stock dividend, payable October 1, 2011, at 35.0 cents per share (equivalent to $1.40 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

During the nine months ended September 30, 2011 the following distributions and capital contributions occurred:

	PPL Energy Supply		PPL Electric		LKE		LG&E		KU
Dividends/distributions paid to parent/member	$	209 (a)	$	76	$	469	$	55	$	88
Capital contributions received from parent/member		361		56						

(a) In addition to the cash distributions paid, in January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent company, PPL Energy Funding. See Note 8 for additional information.

8. Acquisitions, Development and Divestitures

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL continuously evaluates potential acquisitions, divestitures and development projects as opportunities arise or are identified. Development projects are continuously reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. Any resulting transactions may impact future financial results. See below for information on PPL's acquisitions of WPD Midlands and LKE, PPL Energy Supply's distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, that was presented as discontinued operations by PPL Energy Supply and the sales of businesses that were presented as discontinued operations by PPL and PPL Energy Supply.

Acquisitions

Acquisition of WPD Midlands *(PPL)*

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands), from subsidiaries of E.ON AG. The consideration for the acquisition consisted of cash of $5.8 billion, including the repayment of $1.7 billion of affiliate indebtedness owed to subsidiaries of E.ON AG, and approximately $800 million of long-term debt assumed through consolidation. WPD Midlands' regulated distribution operations serve five million end users in the Midlands area of England. The acquisition increases the regulated portion of PPL's business and enhances rate-regulated growth opportunities as the regulated businesses make investments to improve infrastructure and customer reliability. Further, the service territories of WPD (South Wales), WPD (South West) and WPD Midlands are contiguous and cost savings, efficiencies and other benefits are expected from the combined operations.

The fair value of the consideration paid for Central Networks was as follows (in billions):

Aggregate enterprise consideration	$	6.6
Less: fair value of long-term debt outstanding assumed through consolidation		0.8
Total cash consideration paid		5.8
Less: funds made available to Central Networks to repay pre-acquisition affiliate indebtedness		1.7
Cash consideration paid for Central Networks' outstanding ordinary share capital	$	4.1

The total cash consideration paid was primarily funded by borrowings under the 2011 Bridge Facility on the date of acquisition. Subsequently, PPL repaid the borrowings under the 2011 Bridge Facility using proceeds from the permanent financing, including April 2011 issuances of common stock and 2011 Equity Units, and proceeds from the issuance of debt by PPL WEM, WPD (East Midlands) and WPD (West Midlands) in the second quarter of 2011. See Note 7 for additional information on the 2011 Bridge Facility and permanent financing.

Preliminary Purchase Price Allocation

The following table summarizes (in billions) the preliminary allocation of the purchase price to the fair value of the major classes of assets acquired and liabilities assumed.

Current assets (a)	$	0.2
PP&E		4.9
Intangible assets (b)		0.1
Other noncurrent assets		0.1
Current liabilities (c) (d)		(0.5)
PPL WEM affiliate indebtedness		(1.7)
Long-term debt (current and noncurrent) (c)		(0.8)
Other noncurrent liabilities (c) (d)		(0.6)
Net identifiable assets acquired		1.7
Goodwill		2.4
Net assets acquired	$	4.1

(a) Includes gross contractual amount of the accounts receivable acquired of $119 million, which approximates fair value.
(b) Intangible assets recorded include $88 million of easements, which have an indefinite life, and $11 million of customer contracts, which have a weighted-average amortization period of 10 years.
(c) Represents non-cash activity excluded from the Statement of Cash Flows for the nine months ended September 30, 2011.
(d) In the third quarter of 2011, the preliminary purchase price allocation, as of the acquisition date, was adjusted to record a $77 million liability primarily for costs expected to be paid in order for WPD Midlands to become compliant with regulations pertaining to overhead line clearances. See Note 6 for additional information.

The purchase price allocation is preliminary and could change materially in subsequent periods. The preliminary purchase price allocation was based on PPL's best estimates using information obtained as of the reporting date. Any changes to the purchase price allocation during the measurement period, which can extend up to one year from the date of acquisition, that result in material changes to the consolidated financial results will be adjusted retrospectively. The final purchase price allocation is expected to be completed before the end of 2011. The items pending finalization include, but are not limited to, the valuation of PP&E, intangible assets including goodwill, defined benefit plans, certain liabilities and income tax-related matters.

The preliminary purchase price allocation resulted in goodwill of $2.4 billion that was assigned to the International Regulated segment. This reflects the expected continued growth of a rate-regulated business with a defined service area operating under a constructive regulatory framework, expected cost savings, efficiencies and other benefits resulting from a contiguous service area with WPD (South West) and WPD (South Wales) and the ability to leverage WPD (South West)'s and WPD (South Wales)'s existing management team's high level of performance in capital cost efficiency, system reliability and customer service. The goodwill is not deductible for U.K. income tax purposes.

Separation Benefits - International Regulated Segment

In connection with the acquisition of WPD Midlands, PPL initiated a reorganization designed to transition the WPD Midlands companies to the same operating structure as WPD (South West) and WPD (South Wales). The reorganization, which is expected to be completed in 2012, is intended to transition WPD Midlands from a functional structure to a regional structure that will require a smaller combined support structure, reduce duplication and implement more efficient procedures. Approximately 740 employees of WPD Midlands will receive separation benefits from the companies as a result of the reorganization.

The separation benefits, before income taxes, associated with the reorganization are as follows:

Severance compensation	$	58
Early retirement deficiency costs (ERDC) under applicable pension plans		43
Outplacement services		1
Total separation benefits	$	102

WPD Midlands recorded $84 million of the total expected separation benefits in the three and nine months ended September 30, 2011, of which $41 million relates to severance compensation and $43 million relates to ERDC. WPD Midlands expects to record the remaining portion of severance compensation, based on the expected timing of when employees will separate from the companies, as follows: an estimated $6 million in the fourth quarter of 2011 and an estimated $11 million in 2012. The separation benefits recorded in the three and nine months ended September 30, 2011 are included in "Other operation and maintenance" on the Statement of Income. The accrued severance compensation is reflected in "Other current liabilities" and the ERDC reduced "Other noncurrent assets" on the Balance Sheet at September 30, 2011.

These amounts do not include $9 million recorded in the nine months ended September 30, 2011 for ERDC payable under applicable pension plans and severance compensation for certain employees who separated from the WPD Midlands companies, but were not part of the reorganization. These separation benefits are also included in "Other operation and maintenance" on the Statement of Income.

Pro forma Information

The actual WPD Midlands operating revenues, net income and net income excluding nonrecurring acquisition-related adjustments (which are recorded on a one-month lag) included in PPL's Statement of Income and included in the International Regulated segment, for both periods ended September 30, 2011 were as follows.

	Three Months	Nine Months
Operating revenues	$ 292	$ 499
Net Income	56	63
Net Income - excluding nonrecurring acquisition-related adjustments	118	183

The pro forma operating revenues and net income attributable to PPL for the periods ended September 30, which includes LKE as if the acquisition had occurred January 1, 2009 and WPD Midlands as if the acquisition had occurred January 1, 2010, are as follows.

	Three Months		Nine Months	
	2011	2010	2011	2010
Operating Revenues - PPL consolidated pro forma	$ 3,115	$ 3,149	$ 8,905	$ 9,500
Net Income Attributable to PPL - PPL consolidated pro forma	497	489	1,306	1,062

The pro forma financial information presented above has been derived from the historical consolidated financial statements of PPL and LKE, which was acquired on November 1, 2010, and from the historical combined financial statements of WPD Midlands. Income (loss) from discontinued operations (net of income taxes), which was not significant for the three and nine months ended September 30, 2011 and which was $(53) million and $(40) million for the three and nine months ended September 30, 2010, was excluded from the pro forma amounts above.

The pro forma adjustments include adjustments to depreciation, net periodic pension costs, interest expense, nonrecurring adjustments and the related income tax effects. Nonrecurring adjustments include the following pre-tax credits (expenses):

	Income Statement Line Item	Three Months 2011	Three Months 2010	Nine Months 2011	Nine Months 2010
WPD Midlands acquisition					
2011 Bridge Facility costs	Interest Expense			$ (43)	
Foreign currency loss on 2011 Bridge Facility	Other Income (Expense) - net			(57)	
Net hedge gains	Other Income (Expense) - net			55	
Hedge ineffectiveness	Interest Expense			(12)	
U.K. stamp duty tax	Other Income (Expense) - net			(21)	
Separation benefits	Other operation and maintenance	$ (86)		(92)	
Other acquisition-related costs	(a)	2		(45)	
LKE acquisition					
2010 Bridge Facility costs	Interest Expense		$ (45)		$ (67)
Other acquisition-related costs	Other Income (Expense) - net		(4)		(11)

(a) Primarily includes advisory, accounting and legal fees recorded in "Other Income (Expense) - net."

Acquisition of LKE *(PPL, LKE, LG&E and KU)*

See Notes 1 and 10 in PPL's 2010 Form 10-K and Note 2 in the annual financial statements included in the 2011 Registration Statements (in the case of LKE, LG&E and KU) for information on PPL's November 2010 acquisition of LKE.

Pending Bluegrass Plant Acquisition *(PPL, LKE, LG&E and KU)*

In September 2011, LG&E and KU entered into an Asset Purchase Agreement (APA) with Bluegrass Generation Company, L.L.C. for the purchase of three existing natural gas simple cycle combustion units in LaGrange, Kentucky, aggregating approximately 495 MW, plus limited associated contractual arrangements required for operation of the plant (collectively, the Bluegrass Plant), for a purchase price of $110 million. Pursuant to the APA, LG&E and KU will jointly acquire the Bluegrass Plant as tenants in common, with LG&E as owner of a 69% undivided interest, and KU as owner of a 31% undivided interest, in the purchased assets. The purchase is subject to receipt of approvals from the KPSC, the VSCC, the FERC, certain permit assignments or local approvals, and other conditions. Either party can terminate the APA should a closing of the purchase transaction fail to have occurred by June 30, 2012.

Development

(PPL, LKE, LG&E and KU)

NGCC Construction

In September 2011, LG&E and KU requested KPSC approval to build a 640 MW NGCC at the existing Cane Run site in Kentucky. Once all approvals are received, construction on an NGCC at Cane Run is expected to begin in 2012, with construction expected to be complete by 2016. This project is also subject to regulatory approval from the VSCC. The project has an expected cost of $583 million, which includes costs of building a natural gas supply pipeline. See Note 6 for additional information.

In conjunction with this request, LG&E and KU anticipate retiring three older coal-fired electric generating stations to meet new, stricter federal EPA regulations. These stations include Cane Run, Tyrone and Green River, which have a combined summer rating of 797 MW. The Cane Run and Green River coal units will need to remain operational until the replacement generation and associated transmission projects are completed.

TC2

In January 2011, LKE began dispatching electricity from TC2 to meet customer demand. See Note 10 in this Form 10-Q, Notes 8 and 15 in PPL's 2010 Form 10-K and Note 13 in the annual financial statements included in the 2011 Registration Statements (in the case of LKE, LG&E and KU) for additional information.

(PPL and PPL Energy Supply)

Susquehanna Uprate Project

In 2008, PPL Susquehanna received NRC approval for its request to increase the generation capacity of the Susquehanna nuclear plant. The project was completed in phases over several years. PPL Susquehanna's share of the total expected capacity increase was approximately 195 MW. The final phase of the project, a 50 MW Unit 2 uprate, was completed in the third quarter of 2011.

Bell Bend COLA

The NRC continues to review the COLA submitted by a PPL Energy Supply subsidiary for the proposed Bell Bend nuclear generating unit to be built adjacent to the Susquehanna plant. PPL has made no decision to proceed with construction of Bell Bend and expects that such decision will not be made for several years given the anticipated lengthy NRC license approval process. Additionally, PPL has announced that it does not expect to proceed with construction absent favorable economics, a joint arrangement with other interested parties and a federal loan guarantee or other acceptable financing. PPL and its subsidiaries are currently authorized by PPL's Board of Directors to spend up to $144 million on the COLA and other permitting costs (including land costs) necessary for construction. At September 30, 2011 and December 31, 2010, $124 million and $109 million of costs associated with the licensing application were capitalized and are included on the Balance Sheets in noncurrent "Other intangibles." PPL believes it is probable that these costs are ultimately recoverable following NRC approval of the COLA either through construction of the new nuclear unit, transfer of the COLA rights to a joint venture, or sale of the COLA rights to another party. The PPL Energy Supply subsidiary remains active in the DOE Federal loan guarantee application process. See Note 8 in PPL's 2010 Form 10-K and Note 5 in PPL Energy Supply's Form 8-K dated June 24, 2011 for additional information.

(PPL and PPL Electric)

Susquehanna-Roseland Transmission Line

PPL Electric has experienced delays in obtaining necessary National Park Service approvals for the Susquehanna-Roseland transmission line and anticipates a delay of the line's in-service date to 2015. In the first quarter of 2011, PJM issued an updated assessment of the new line within its 2010 Regional Transmission Expansion Plan, which confirms that the line is needed by 2012 to prevent overloads on other power lines in the region. PJM has developed a strategy to manage potential reliability problems until the line is built. In October 2011, the project was placed on the initial list of projects for the Rapid Response Team for Transmission (RRTT), an initiative of the White House to facilitate coordination among federal agencies to improve the overall quality and timeliness of electric transmission infrastructure permitting, review and consultation. The National Park Service record of decision for the project is scheduled to be issued on October 1, 2012. PPL Electric cannot predict what additional actions, if any, PJM might take in the event of a continued delay to its scheduled in-service date for the new line. See Note 8 in each Registrant's 2010 Form 10-K for additional information.

Discontinued Operations

(PPL and PPL Energy Supply)

Sale of Certain Non-core Generation Facilities

In March 2011, PPL Energy Supply subsidiaries completed the sale of their ownership interests in certain non-core generation facilities, which were included in the Supply segment, for $381 million. The transaction included the natural gas-fired facilities in Wallingford, Connecticut and University Park, Illinois and an equity interest in Safe Harbor Water Power Corporation, which owns a hydroelectric facility in Conestoga, Pennsylvania. In connection with the completion of the sale, PPL Energy Supply recorded insignificant losses in the first and second quarters of 2011.

These non-core generation facilities met the held for sale criteria in the third quarter of 2010. As a result, assets with a carrying amount of $473 million were written down to their estimated fair value (less cost to sell) of $377 million at September 30, 2010, resulting in a pre-tax impairment charge of $96 million ($58 million after tax). In addition, $5 million ($4 million after tax) of allocated goodwill was written off in the third quarter of 2010. These charges are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statement of Income for the three and nine months ended September 30, 2010.

Following are the components of Discontinued Operations in the Statements of Income for the periods ended September 30.

	Three Months		Nine Months	
	2011	2010	2011	2010
Operating revenues		$ 34	$ 19	$ 91
Operating expenses (a)		118	11	147
Operating income (loss)		(84)	8	(56)
Other income (expense) - net		1		2
Interest expense (b)		2	3	5
Income before income taxes		(85)	5	(59)
Income tax expense		(32)	3	(21)
Income (Loss) from Discontinued Operations		$ (53)	$ 2	$ (38)

(a) 2010 includes the impairment to the carrying value of the generation facilities being sold and the write-off of allocated goodwill.
(b) Represents allocated interest expense based upon debt attributable to the generation facilities sold.

Upon completion of the sale, assets primarily consisting of $357 million of PP&E and a $14 million equity method investment, which were classified as held for sale at December 31, 2010, were removed from the Balance Sheet.

Sale of Long Island Generation Business

In February 2010, PPL Energy Supply subsidiaries completed the sale of the Long Island generation business, which was included in the Supply segment. The definitive sales agreement included provisions that reduced the $135 million purchase price monthly, commencing September 1, 2009. After adjusting for these price-reduction provisions, proceeds from the sale approximated $124 million. There was no significant impact on earnings in the nine months ended September 30, 2010 from the operation of this business or as a result of this sale.

Distribution of Membership Interest in PPL Global to Parent *(PPL Energy Supply)*

In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global, which represented the entire International Regulated segment, to PPL Energy Supply's parent, PPL Energy Funding. The distribution was made based on the book value of the assets and liabilities of PPL Global with financial effect as of January 1, 2011, and no gains or losses were recognized on the distribution. The purpose of the distribution was to better align PPL's organizational structure with the manner in which it manages these businesses, separating the U.S.-based competitive energy marketing and supply business from the U.K.-based regulated electricity distribution business. Following the distribution, PPL Energy Supply operates in a single business segment, and through its subsidiaries is primarily engaged in the generation and marketing of power, primarily in the northeastern and northwestern U.S.

Following are the components of Discontinued Operations in the Statement of Income for the periods ended September 30, 2010.

	Three Months	Nine Months
Operating revenues	$ 172	$ 563
Operating expenses	84	260
Operating income	88	303
Other income (expense) - net		2
Interest expense (a)	37	101
Income before income taxes	51	204
Income tax expense	(55)	(23)
Income (Loss) from Discontinued Operations	$ 106	$ 227

(a) No interest was allocated, as PPL Global is sufficiently capitalized.

In connection with the distribution, the following assets and liabilities were removed from PPL Energy Supply's Balance Sheet in the first quarter of 2011. Except for "Cash and cash equivalents," which has been reflected as a financing activity, the remaining distribution represents a non-cash transaction excluded from PPL Energy Supply's Statement of Cash Flows for the nine months ended September 30, 2011.

Cash and cash equivalents	$ 325
Accounts receivable	46
Unbilled revenues	70
Other current assets	21
PP&E, net	3,502
Goodwill	679
Other intangibles	80
Other noncurrent assets	77
Total Assets	4,800
Short-term debt	181
Accounts payable	86
Accrued interest	71
Other current liabilities	112
Long-term debt	2,313
Deferred income tax liabilities - noncurrent	399
Accrued pension obligations	320
Other deferred credits and noncurrent liabilities	30
Total Liabilities	3,512
Net assets distributed	$ 1,288

9. Defined Benefits

(PPL, PPL Energy Supply, LKE and LG&E)

Following are the net periodic defined benefit costs (credits) of the plans sponsored by the registrants for the periods ended September 30:

	Pension Benefits							
	Three Months				Nine Months			
	U.S.		U.K.		U.S.		U.K.	
	2011	2010	2011	2010	2011	2010	2011	2010
PPL								
Service cost	$ 24	$ 15	$ 14	$ 4	$ 71	$ 45	$ 31	$ 13
Interest cost	54	37	88	38	163	111	200	113
Expected return on plan assets	(61)	(43)	(103)	(51)	(184)	(131)	(243)	(150)
Amortization of:								
Prior service cost	6	5	1	1	18	15	3	3
Actuarial (gain) loss	7		15	12	21	2	44	36
Net periodic defined benefit costs (credits) prior to termination benefits	30	14	15	4	89	42	35	15
Termination benefits (a)			45				47	
Net periodic defined benefit costs (credits)	$ 30	$ 14	$ 60	$ 4	$ 89	$ 42	$ 82	$ 15
PPL Energy Supply								
Service cost	$ 1	$ 1		$ 4	$ 3	$ 3		$ 13
Interest cost	1	2		38	5	5		113
Expected return on plan assets	(2)	(1)		(51)	(6)	(4)		(150)
Amortization of:								
Prior service cost				1				3
Actuarial (gain) loss	1			12	2	1		36
Net periodic defined benefit costs (credits)	$ 1	$ 2		$ 4	$ 4	$ 5		$ 15

(a) WPD Midlands recorded early retirement deficiency costs payable under applicable pension plans related to employees leaving the WPD Midlands companies. See Note 8 for additional information.

	Pension Benefits			
	Three Months		Nine Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
LKE				
Service cost	$ 6	$ 6	$ 18	$ 16
Interest cost	16	16	50	48
Expected return on plan assets	(16)	(15)	(48)	(42)
Amortization of:				
Prior service cost	2	2	4	6
Actuarial (gain) loss	6	5	17	15
Net periodic defined benefit costs (credits)	$ 14	$ 14	$ 41	$ 43
LG&E				
Service cost			$ 1	$ 1
Interest cost	$ 4	$ 4	11	11
Expected return on plan assets	(4)	(4)	(13)	(12)
Amortization of:				
Prior service cost		1	1	2
Actuarial (gain) loss	3	2	9	6
Net periodic defined benefit costs (credits)	$ 3	$ 3	$ 9	$ 8

	Other Postretirement Benefits			
	Three Months		Nine Months	
	2011	2010	2011	2010
PPL				
Service cost	$ 3	$ 2	$ 9	$ 6
Interest cost	9	6	25	20
Expected return on plan assets	(6)	(5)	(17)	(15)
Amortization of:				
Transition obligation		1	1	5
Prior service cost				4
Actuarial cost	1	2	4	4
Net periodic defined benefit costs (credits)	$ 7	$ 6	$ 22	$ 24

	Other Postretirement Benefits			
	Three Months		Nine Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
LKE				
Service cost	$ 1	$ 1	$ 3	$ 3
Interest cost	3	3	8	8
Expected return on plan assets	(1)	(1)	(3)	(2)
Amortization of:				
Transition obligation		1	1	1
Prior service cost	1		2	1
Net periodic defined benefit costs (credits)	$ 4	$ 4	$ 11	$ 11

(PPL Energy Supply)

See Note 8 for information on PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, which included associated accrued pension obligations.

(PPL Energy Supply and PPL Electric)

In addition to the specific plans it sponsors, PPL Energy Supply and its subsidiaries are allocated costs of PPL Services- sponsored defined benefit plans, which management believes are reasonable, based on their participation in those plans. PPL Electric does not directly sponsor any defined benefit plans. PPL Electric is allocated costs of PPL Services-sponsored defined benefit plans, which management believes are reasonable, based on its participation in those plans. PPL Services allocated the following net periodic benefit costs to PPL Energy Supply and PPL Electric, including amounts applied to accounts that are further distributed between capital and expense for the periods ended September 30.

	Three Months		Nine Months	
	2011	2010	2011	2010
PPL Energy Supply	$ 8	$ 7	$ 23	$ 25
PPL Electric	6	7	18	21

(LG&E and KU)

In addition to the specific plan it sponsors, LG&E is allocated costs of LKE-sponsored defined benefit plans, which management believes are reasonable, based on its participation in those plans. KU does not directly sponsor any defined benefit plans. KU is allocated costs of LKE-sponsored defined benefit plans, which management believes are reasonable, based on its participation in those plans. LKE allocated the following net periodic benefit costs to LG&E and KU, including amounts applied to accounts that are further distributed between capital and expense for the periods ended September 30.

	Three Months		Nine Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
LG&E	$ 6	$ 5	$ 17	$ 16
KU	9	8	27	25

Expected Cash Flows - U.K. Pension Plans

(PPL)

During 2011, WPD updated its expected pension contributions for 2011 to $111 million from the $15 million expected contributions disclosed in PPL's 2010 Form 10-K. The updated contributions reflect $27 million of contributions required to fund the acquired WPD Midlands' plan and $69 million of increased PPL WW contributions to prepay future contribution requirements to fund pension plan deficits. As of September 30, 2011, WPD had contributed $102 million to its plans.

In addition, during 2011 WPD Midlands expects to contribute $43 million to fund the early retirement deficiency costs provided as part of the reorganization of WPD Midlands. See Note 8 for additional information.

Health Care Reform *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

In March 2010, Health Care Reform was signed into law. Many provisions of Health Care Reform do not take effect for an extended period of time, and most will require the publication of implementing regulations and/or issuance of program guidelines.

Beginning in 2013, provisions within Health Care Reform eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, in the first quarter of 2010, PPL and its subsidiaries recorded the following adjustments and will continue to monitor the potential impact of any changes to the existing provisions and implementation guidance related to Health Care Reform on their benefit programs.

(PPL, PPL Energy Supply, PPL Electric)

- PPL decreased deferred tax assets by $13 million, increased regulatory assets by $9 million, increased deferred tax liabilities by $4 million and recorded income tax expense of $8 million;
- PPL Energy Supply decreased deferred tax assets by $5 million and recorded income tax expense of $5 million; and
- PPL Electric decreased deferred tax assets by $5 million, increased regulatory assets by $9 million and increased deferred tax liabilities by $4 million.

(LKE, LG&E and KU)

- LKE and KU recorded insignificant amounts as a result of this enactment. LG&E was not impacted.

10. Commitments and Contingencies

Energy Purchase Commitments

(PPL, LKE, LG&E and KU)

LG&E and KU have a power purchase agreement with OVEC, extended in February 2011 to June 2040. FERC approval of the extension was received in May 2011, followed by KPSC and VSCC approvals in August 2011. Pursuant to the OVEC power purchase contract, LG&E and KU are responsible for their pro-rata share of certain obligations of OVEC under defined circumstances. These potential liabilities include unpaid OVEC indebtedness as well as shortfall amounts in certain excess decommissioning costs and other post-employment and post-retirement benefit costs other than pension. LKE's proportionate share of OVEC's outstanding debt was $113 million at September 30, 2011, consisting of LG&E's share of $78 million and KU's share of $35 million. Future obligations for power purchases from OVEC are unconditional demand payments, comprised of annual minimum debt service payments, as well as contractually required reimbursement of plant operating, maintenance and other expenses as follows:

	LG&E	KU	Total
2012	$ 19	$ 9	$ 28
2013	20	9	29
2014	20	9	29
2015	21	9	30
2016	21	9	30
Thereafter	628	279	907
	$ 729	$ 324	$ 1,053

In addition, LG&E and KU had total energy purchases under the OVEC power purchase agreement for the three and nine months ended September 30, as follows:

(PPL, LKE, LG&E and KU)

	2011	
	Successor	
	Three Months	Nine Months
LG&E	$ 6	$ 18
KU	3	8
Total	$ 9	$ 26

(LKE, LG&E and KU)

	2010	
	Predecessor	
	Three Months	Nine Months
LG&E	$ 5	$ 15
KU	2	7
Total	$ 7	$ 22

(PPL and PPL Electric)

In 2009, the PUC approved PPL Electric's procurement plan for the period January 2011 through May 2013. Through October 2011, PPL Electric has conducted nine of its 14 planned competitive solicitations. The solicitations include a mix of long-term and short-term purchases ranging from five months to ten years to fulfill PPL Electric's obligation to provide for customer supply as a PLR. See Note 6 for a discussion of the default service supply procurement provisions of Act 129.

Legal Matters

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business.

(PPL, LKE, LG&E and KU)

TC2 Construction

In June 2006, LG&E and KU, as well as the Indiana Municipal Power Agency and Illinois Municipal Electric Agency (collectively, TC2 Owners), entered into a construction contract regarding the TC2 project. The contract is generally in the form of a turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price. During 2009 and 2010, the TC2 Owners received several contractual notices from the TC2 construction contractor asserting historical force majeure and excusable event claims for a number of adjustments to the contract price, construction schedule, commercial operations date, liquidated damages or other relevant provisions. In September 2010, the TC2 Owners and the construction contractor agreed to a settlement to resolve the force majeure and excusable event claims occurring through July 2010, under the TC2 construction contract, which settlement provided for a limited, negotiated extension of the contractual commercial operations date and/or relief from liquidated damage calculations. With limited exceptions, the TC2 Owners took care, custody and control of TC2 in January 2011. Pursuant to certain amendments to the construction agreement, the contractor will complete modifications to the combustion system prior to certain dates to allow operation of TC2 on all specified fuels categories. The provisions of the construction agreement relating to liquidated damages were also amended. In September 2011, the TC2 Owners and the construction contractor entered into a further amendment to the construction agreement settling, among other matters, certain historical change order, labor rate and prior liquidated damages amounts. The remaining issues are still under discussion with the contractor. PPL, LKE, LG&E and KU cannot currently predict the outcome of this matter or the potential impact on the capital costs of this project.

TC2 Transmission

LG&E's and KU's CPCN and condemnation rights relating to a transmission line associated with the TC2 construction have been challenged by certain property owners in Hardin County, Kentucky. Certain proceedings relating to CPCN challenges and federal historic preservation permit requirements have concluded with outcomes in LG&E's and KU's favor. With respect to the remaining issues in dispute, during 2008 KU obtained various successful rulings at the Hardin County Circuit Court confirming its condemnation rights. In August 2008, several landowners appealed such rulings to the Kentucky Court of Appeals. In May 2010, the Kentucky Court of Appeals issued an Order affirming the Hardin Circuit Court's finding that KU had the right to condemn easements on the properties. In May 2010, the landowners filed a petition for reconsideration with the Kentucky Court of Appeals. In July 2010, the Kentucky Court of Appeals denied that petition. In August 2010, the landowners filed for discretionary review of that denial by the Kentucky Supreme Court. In March 2011, the Kentucky Supreme Court issued an order declining the discretionary review request, thus closing this matter.

Argentina Matters *(LKE, LG&E and KU)*

In connection with an administrative proceeding alleging a violation by a former Argentine subsidiary under that country's 2002-2003 emergency currency exchange laws, claims were brought against the subsidiary's then directors, including two individuals who are executive officers of LKE, in a specialized Argentine financial criminal court. Under applicable Argentine laws, directors of a local company may be liable for monetary penalties for a subject company's violations of the currency laws. In February 2011, the Argentine court issued an order acquitting the former subsidiary and its directors of all claims, which order has become final.

(PPL and PPL Energy Supply)

Spent Nuclear Fuel Litigation

Federal law requires the U.S. government to provide for the permanent disposal of commercial spent nuclear fuel, but there is no definitive date by which a repository will be operational. As a result, it was necessary to expand Susquehanna's on-site spent fuel storage capacity. To support this expansion, PPL Susquehanna contracted for the design and construction of a spent fuel storage facility employing dry cask fuel storage technology. The facility is modular, so that additional storage capacity can be added as needed. The facility began receiving spent nuclear fuel in 1999. PPL Susquehanna estimates that there is sufficient storage capacity in the spent nuclear fuel pools and the on-site dry cask storage facility at Susquehanna to accommodate spent fuel discharged through approximately 2017 under current operating conditions. If necessary, on-site dry cask storage capability can be expanded, assuming appropriate regulatory approvals are obtained, such that, together, the spent fuel pools and the expanded dry fuel storage facilities will accommodate all of the spent fuel expected to be discharged through the current licensed life of each unit, 2042 for Unit 1 and 2044 for Unit 2.

In 1996, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court) ruled that the Nuclear Waste Policy Act imposed on the DOE an unconditional obligation to begin accepting spent nuclear fuel on or before January 31, 1998. In 1997, the D.C. Circuit Court ruled that the contracts between the utilities and the DOE provide a potentially adequate remedy if the DOE failed to begin accepting spent nuclear fuel by January 31, 1998. The DOE did not, in fact, begin to accept spent nuclear fuel by that date. The DOE continues to contest claims that its breach of contract resulted in recoverable damages. In January 2004, PPL Susquehanna filed suit in the U.S. Court of Federal Claims for unspecified damages suffered as a result of the DOE's breach of its contract to accept and dispose of spent nuclear fuel. In May 2011, the parties entered into a settlement agreement which resolved all claims of PPL Susquehanna through December 2013. Under the settlement agreement, PPL Susquehanna received $50 million for its share of claims to recover costs to store spent nuclear fuel at the Susquehanna station through September 30, 2009, and recognized a credit to "Fuel" expense in the second quarter of 2011. PPL Susquehanna also will be eligible to receive payment of annual claims for allowed costs, as set forth in the settlement agreement, that are incurred thereafter through the December 31, 2013 termination date of the settlement agreement. In exchange, PPL Susquehanna has waived any claims against the United States government for costs paid or injuries sustained related to storing spent nuclear fuel at the Susquehanna plant through December 31, 2013.

Montana Hydroelectric Litigation

In November 2004, PPL Montana, Avista Corporation (Avista) and PacifiCorp commenced an action for declaratory judgment in Montana First Judicial District Court seeking a determination that no lease payments or other compensation for their hydroelectric facilities' use and occupancy of certain riverbeds in Montana can be collected by the State of Montana. This lawsuit followed dismissal on jurisdictional grounds of an earlier federal lawsuit seeking such compensation in the U.S. District Court of Montana. The federal lawsuit alleged that the beds of Montana's navigable rivers became state-owned trust property upon Montana's admission to statehood, and that the use of them should, under a 1931 regulatory scheme enacted after all but one of the hydroelectric facilities in question were constructed, trigger lease payments for use of land beneath. In July 2006, the Montana state court approved a stipulation by the State of Montana that it was not seeking compensation for the period prior to PPL Montana's December 1999 acquisition of the hydroelectric facilities.

Following a number of adverse trial court rulings, in 2007 Pacificorp and Avista each entered into settlement agreements with the State of Montana providing, in pertinent part, that each company would make prospective lease payments for use of the State's navigable riverbeds (subject to certain future adjustments), resolving the State's claims for past and future compensation.

Following an October 2007 trial of this matter on damages, in June 2008, the Montana District Court awarded the State retroactive compensation of approximately $35 million for the 2000-2006 period and approximately $6 million for 2007 compensation. Those unpaid amounts continue to accrue interest at 10% per year. The Montana District Court also deferred determination of compensation for 2008 and future years to the Montana State Land Board. In October 2008, PPL Montana appealed the decision to the Montana Supreme Court, requesting a stay of judgment and a stay of the Land Board's authority to assess compensation for 2008 and future periods.

In March 2010, the Montana Supreme Court substantially affirmed the June 2008 Montana District Court decision. As a result, in the first quarter of 2010, PPL Montana recorded a pre-tax charge of $56 million ($34 million after tax or $0.08 per share, basic and diluted, for PPL), representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. Rental compensation was estimated for periods subsequent to 2007, although such estimated amounts may differ from amounts ultimately determined by the Montana State Land Board. The portion of the pre-tax charge that related to prior years totaled $54 million ($32 million after tax). The pre-tax charge recorded on the Statement of Income was $49 million in "Other operation and maintenance" and $7 million in "Interest Expense." PPL Montana continues to accrue interest expense for the prior years and rent expense for the current year. PPL Montana's total loss accrual at September 30, 2011 was $84 million.

In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the Supreme Court granted PPL Montana's petition. Oral argument is scheduled for December 2011. A decision will be rendered by the Court by June 30, 2012. The stay of the judgment granted during the proceedings before the Montana Supreme Court has been extended by agreement with the State of Montana, to cover the anticipated period of the proceeding before the U.S. Supreme Court. PPL and PPL Energy Supply cannot predict the outcome of this matter, but do not expect to incur material losses beyond the estimated losses recorded.

PJM/MISO Billing Dispute *(PPL, PPL Energy Supply and PPL Electric)*

In 2009, PJM reported that it had discovered a modeling error in the market-to-market power flow calculations between PJM and MISO. The error was a result of incorrect modeling of certain generation resources that have an impact on power flows across the PJM/MISO border. Informal settlement discussions on this issue terminated in March 2010. Also in March 2010, MISO filed two complaints with the FERC concerning the modeling error and related matters with a demand for $130 million of principal plus interest. In April 2010, PJM filed answers to the complaints and filed a related complaint against MISO. In its answers and complaint, PJM denies that any compensation is due to MISO and seeks recovery in excess of $25 million from MISO for alleged violations by MISO regarding market-to-market power flow calculations. PPL participates in markets in both PJM and MISO. In June 2010, the FERC ordered the complaints to be consolidated and set for settlement discussions, followed by hearings if the discussions are unsuccessful. In January 2011, the parties to this dispute filed a settlement with the FERC under which no compensation would be paid to either PJM or MISO and providing for certain improvements in how the calculations are administered going forward. The settlement was contested by several parties and in June 2011 the FERC issued an order approving the contested settlement, which order has become final and is not subject to rehearing and appeal.

Regulatory Issues *(PPL, PPL Electric, LKE, LG&E and KU)*

See Note 6 for information on regulatory matters related to utility rate regulation.

Enactment of Financial Reform Legislation *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

In July 2010, the Dodd-Frank Act was signed into law. Of particular relevance to PPL and PPL Energy Supply, the Dodd-Frank Act includes provisions that will likely impose derivative transaction reporting requirements and require most over-the-counter derivative transactions to be executed through an exchange or to be centrally cleared. The Dodd-Frank Act, however, provides an exemption from mandatory clearing and exchange trading requirements for over-the-counter derivative transactions used to hedge or mitigate commercial risk. Although the phrase "to hedge or mitigate commercial risk" is not defined in the Dodd-Frank Act, the 2010 rules proposed by the Commodity Futures Trading Commission (CFTC) set forth an inclusive, multi-pronged definition for the phrase. Based on this proposed definition and other requirements in the proposed rule, it is anticipated that transactions utilized by PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU should qualify if they are not entered into for speculative purposes. The Dodd-Frank Act also provides that the CFTC may impose collateral and margin requirements for over-the-counter derivative transactions, including those that are used to hedge commercial risk. However, during drafting of the Dodd-Frank Act, certain members of Congress adopted report language and issued a public letter stating that it was not their intention to impose margin and collateral requirements on counterparties that utilize these transactions to hedge commercial risk. Final rules on major provisions in the Dodd-Frank Act, including imposition of collateral and margin requirements, will be established through rulemakings and the CFTC has postponed implementation until December 31, 2011. PPL and PPL Energy Supply may be required to post additional collateral if they are subject to margin requirements as ultimately adopted in the implementing regulations of the Dodd-Frank Act. PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU will continue to evaluate the provisions of the Dodd-Frank Act and monitor developments related to its implementation. At this time, PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU cannot predict the impact that the new law or its implementing regulations will have on their businesses or operations, or the markets in which they transact business, but currently do not expect to incur material costs related to this matter.

New Jersey Capacity Legislation *(PPL, PPL Energy Supply and PPL Electric)*

In January 2011, New Jersey enacted a law that intervenes in the wholesale capacity market exclusively regulated by the FERC: S. No. 2381, 214th Leg. (N.J. 2011) (the Act). To create incentives for the development of new, in-state electric generation facilities, the Act implements a "long-term capacity agreement pilot program (LCAPP)." The Act requires New Jersey utilities to pay a guaranteed fixed price for wholesale capacity, imposed by the New Jersey Board of Public Utilities (BPU), to certain new generators participating in PJM, with the ultimate costs of that guarantee to be borne by New Jersey ratepayers. PPL believes the intent and effect of the LCAPP is to encourage the construction of new generation in New Jersey even when, under the FERC-approved PJM economic model, such new generation would not be economic. The Act could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to incent necessary generation investment throughout PJM. In February 2011, the PJM Power Providers Group (P3), an organization in which PPL is a member, filed a complaint before the FERC seeking changes in PJM's capacity market rules designed to ensure that subsidized generation, such as may result from the implementation of the LCAPP, will not be able to set capacity prices artificially low as a result of their exercise of buyer market power. In April 2011, the FERC issued an order granting in part and denying in part P3's complaint and ordering changes in PJM's capacity rules consistent with a significant portion of P3's requested changes. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

In addition, in February 2011, PPL, with several other generating companies and utilities, filed a complaint in Federal Court in New Jersey challenging the Act on the grounds that it violates well-established principles under the Supremacy Clause and the Commerce Clause of the U.S. Constitution. In this action, the Plaintiffs request declaratory and injunctive relief barring implementation of the Act by the Commissioners of the BPU. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

California ISO and Western U.S. Markets *(PPL and PPL Energy Supply)*

Through its subsidiaries, PPL Energy Supply made $18 million of sales to the California ISO during the period October 2000 through June 2001, $17 million of which has not been paid to PPL Energy Supply subsidiaries. This entire receivable has been fully reserved by PPL Energy Supply. Also, there has been further litigation about additional claims of refunds for periods prior to October 2000. In January 2011, PPL Energy Supply and the "California Parties" (collectively, three California utility companies, the California Public Utility Commission and certain California state authorities) filed a settlement under which PPL Energy Supply would receive approximately $1 million of its $17 million claim, plus interest of $1 million. In June 2011, the FERC approved the settlement. Consequently, PPL Energy Supply released its reserve and wrote-off the related receivable. Settlement proceeds were received in July.

In June 2003, the FERC took several actions as a result of several related investigations beyond the California ISO litigation. The FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. In August 2007, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC's decision and ordered the FERC to consider additional evidence. The FERC also commenced additional investigations relating to "gaming" and bidding practices during 2000 and 2001, but neither PPL EnergyPlus nor PPL Montana believes it is a subject of these investigations.

Although PPL and its subsidiaries believe that they have not engaged in any improper trading or marketing practices affecting the western markets, PPL and PPL Energy Supply cannot predict the outcome of the above-described investigations, lawsuits and proceedings or whether any subsidiaries will be the subject of any additional governmental investigations or named in other lawsuits or refund proceedings. Consequently, PPL and PPL Energy Supply cannot estimate a range of reasonably possible losses, if any, related to these matters.

PJM RPM Litigation *(PPL, PPL Energy Supply and PPL Electric)*

In May 2008, a group of state public utility commissions, state consumer advocates, municipal entities and electric cooperatives, industrial end-use customers and a single electric distribution company (collectively, the RPM Buyers) filed a complaint before the FERC objecting to the prices for capacity under the PJM Reliability Pricing Model (RPM) that were set in the 2008-09, 2009-10 and 2010-11 RPM base residual auctions. The RPM Buyers requested that the FERC reset the rates paid to generators for capacity in those periods to a significantly lower level. Thus, the complaint requests that generators be paid less for those periods through refunds and/or prospective changes in rates. The relief requested in the complaint, if granted, could have a material effect on PPL, PPL Energy Supply and PPL Electric. PJM, PPL and numerous other parties responded to the complaint, strongly opposing the relief sought by the RPM Buyers. In September 2008, the FERC entered an order denying the complaint. In August 2009, the RPM Buyers appealed the FERC's decision to the U.S. Court of Appeals for the Fourth Circuit, and the appeal was subsequently transferred to the U.S. Court of Appeals for the District of Columbia Circuit. In February 2011, the U.S. Court of Appeals for the District of Columbia Circuit issued an order denying the appeal. No party sought review of the order denying the appeal. FERC's September 2008 denial of the complaint is therefore final.

In December 2008, PJM submitted amendments to certain provisions governing its RPM capacity market. The amendments were intended to permit the compensation available to suppliers that provide capacity, including PPL Energy Supply, to increase. PJM sought approval of the amendments in time for them to be implemented for the May 2009 capacity auction (for service in June 2012 through May 2013). Numerous parties, including PPL, protested PJM's filing. Certain of the protesting parties, other than PPL, proposed changes to the capacity market auction that would result in a reduction in compensation to capacity suppliers. The changes proposed by PJM and by other parties in response to PJM proposals could significantly affect the compensation available to suppliers of capacity participating in future RPM auctions. In March 2009, the FERC entered an order approving in part and disapproving in part the changes proposed by PJM. In August 2009, the FERC issued an order granting rehearing in part, denying rehearing in part and clarifying its March 2009 order. No request for rehearing or appeal of the August 2009 order was timely filed. In October 2010, the August 2009 Order became final and will not have a material impact on PPL, PPL Energy Supply or PPL Electric.

FERC Market-Based Rate Authority *(PPL, PPL Energy Supply, LKE, LG&E and KU)*

In December 1998, the FERC authorized PPL EnergyPlus to make wholesale sales of electric power and related products at market-based rates. In that order, the FERC directed PPL EnergyPlus to file an updated market analysis within three years after the order, and every three years thereafter. Since then, periodic market-based rate filings with the FERC have been made by PPL EnergyPlus, PPL Electric, PPL Montana and most of PPL Generation's subsidiaries. These filings consisted of a Northwest market-based rate filing for PPL Montana and a Northeast market-based rate filing for most of the other PPL subsidiaries in PJM's region. In December 2010, PPL filed its market-based rate update for the Eastern region. In January 2011, PPL filed the market-based rate update for the Western region. In June 2011, PPL filed its market-based rate update for the Southeast region, including LG&E and KU in addition to PPL EnergyPlus. In June 2011, the FERC issued an order approving LG&E's and KU's request for a determination that they no longer be deemed to have market power in the Big Rivers Electric Corporation balancing area and removing restrictions on their market-based rate authority in such region.

Currently, a seller granted market-based rate authority by the FERC may enter into power contracts during an authorized time period. If the FERC determines that the market is not workably competitive or that the seller possesses market power or is not charging "just and reasonable" rates, it may institute prospective action, but any contracts entered into pursuant to the FERC's market-based rate authority remain in effect and are generally subject to a high standard of review before the FERC can order changes. Recent court decisions by the U.S. Court of Appeals for the Ninth Circuit have raised issues that may make it more difficult for the FERC to continue its program of promoting wholesale electricity competition through market-based rate authority. These court decisions permit retroactive refunds and a lower standard of review by the FERC for changing power contracts, and could have the effect of requiring the FERC in advance to review most, if not all, power contracts. In June 2008, the U.S. Supreme Court reversed one of the decisions of the U.S. Court of Appeals for the Ninth Circuit, thereby upholding the higher standard of review for modifying contracts. At this time, PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the impact of these court decisions on the FERC's future market-based rate authority program or on their businesses.

Energy Policy Act of 2005 - Reliability Standards *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk power system. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk power electricity system, including electric utility companies, generators and marketers. The FERC has indicated it intends to vigorously enforce the Reliability Standards using, among other means, civil penalty authority. Under the Federal Power Act, the FERC may assess civil penalties of up to $1 million per day, per violation, for certain violations. The first group of Reliability Standards approved by the FERC became effective in June 2007.

LG&E, KU , PPL Electric and certain subsidiaries of PPL Energy Supply monitor their compliance with the Reliability Standards and continue to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans. The resolution of a number of potential violations is pending. Any regional reliability entity determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC. PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any, other than the amounts currently recorded.

In the course of implementing its program to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time.

Environmental Matters - Domestic

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Due to the environmental issues discussed below or other environmental matters, PPL subsidiaries may be required to modify, curtail, replace or cease operating certain facilities or operations to comply with statutes, regulations and other requirements of regulatory bodies or courts.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Air

The Clean Air Act addresses, among other things, emissions causing acid deposition, installation of best available control technologies for new or substantially modified sources, attainment of national ambient air quality standards, toxic air emissions and visibility standards in the U.S. Amendments to the Clean Air Act requiring additional emission reductions have been proposed but are unlikely to be introduced or passed in this Congress. The Clean Air Act allows states to develop more stringent regulations and in some instances, as discussed below, Kentucky, Pennsylvania and Montana have done so.

To comply with air related requirements and other environmental requirements as described below, PPL's forecast for capital expenditures reflects a best estimate projection of expenditures that may be required within the next five years. Such projections are a combined $3.1 billion for LG&E and KU (which includes $100 million for LG&E and $500 million for KU associated with currently approved ECR plans during 2011 through 2013 to achieve emissions reductions and manage coal combustions residuals and $1.4 billion for LG&E and $1.1 billion for KU associated with the recently requested 2011 ECR Plans for additional expenditures to comply with new clean air rules and manage coal combustion residuals) and $400 million for PPL Energy Supply. Actual costs may be significantly lower or higher depending on the final requirements. Certain environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are subject to recovery through the ECR. See Note 6 for additional information on the ECR plan.

CSAPR (formerly Clean Air Transport Rule)

In July 2011, the EPA signed the CSAPR which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. The CSAPR replaces the EPA's previous Clean Air Interstate Rule (CAIR) which was struck down by the U.S. Court of Appeals for the District of Columbia Circuit (the Court) in July 2008. CAIR subsequently was effectively reinstated by the Court in December 2008, pending finalization of the Transport Rule. Like CAIR and the proposed Transport Rule, the CSAPR only applies to PPL's generation facilities located in Kentucky and Pennsylvania.

The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxides. The CSAPR establishes a new sulfur dioxide emission allowance cap and trade program that is completely independent of, and more stringent than, the current Acid Rain Program. The CSAPR also establishes new nitrogen oxide emission allowance cap and trade programs to replace the current programs. All trading is more restrictive than previously under CAIR. The CSAPR will be implemented in two phases. The first phase of the sulfur dioxide and nitrogen oxide emissions caps becomes effective in 2012. The second phase, lowering both of these caps, becomes effective in 2014. In October 2011, the EPA proposed technical adjustments to the CSAPR to account for updated data submitted to the agency. Several states and a number of companies have filed petitions for review with the Court challenging various provisions of the CSAPR.

With respect to PPL's competitive generation in Pennsylvania, greater reductions in sulfur dioxide emissions will be required beginning in 2012 under the CSAPR than were required under CAIR. For the initial phase of the rule beginning in 2012, PPL Energy Supply's sulfur dioxide allowance allocations are expected to be greater than the forecasted emissions based on present operations of existing sulfur dioxide scrubbers and coal supply. For the second phase beginning in 2014, the further reduction in allocations will most likely be met with increased operations of the existing sulfur dioxide scrubbers. With respect to nitrogen oxide, the CSAPR provides a slightly higher amount of allowances than under CAIR for PPL Energy Supply's Pennsylvania plants, but still less than PPL Energy Supply's current forecasted emissions. With uncertainty surrounding the trading program, other compliance options are being analyzed for the Pennsylvania fleet, such as the installation of new technology or modifications of plant operations.

With respect to LG&E and KU, greater reductions in sulfur dioxide emissions will also be required under the CSAPR beginning in 2012 than were required under CAIR. For the initial phase of the rule beginning in 2012, sulfur dioxide allowance allocations are expected to meet the forecasted emissions based on present operations of existing sulfur dioxide scrubbers and coal supply. However, by the second phase beginning in 2014, LG&E and KU will likely have to adopt additional measures with respect to the operation and dispatch of their generation fleet, including upgrades or installation of new sulfur dioxide scrubbers for certain generating units and retirement of the coal-fired generating units at the Cane Run, Green River, and Tyrone plants and replacement of those units with new generation. With respect to nitrogen oxide, the CSAPR allocates a slightly higher amount of allowances compared to those allocated under CAIR. With uncertainty surrounding the trading program, other compliance options are being analyzed for the Kentucky fleet. LG&E and KU are seeking recovery of their expected costs to comply with the CSAPR and certain other EPA requirements through the ECR plan filed with the KPSC in June 2011. See Note 6 for additional information.

National Ambient Air Quality Standards

In addition to the reductions in sulfur dioxide and nitrogen oxide emissions required under the CSAPR for the Pennsylvania and Kentucky plants, PPL's plants, including those in Montana, may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. The EPA has recently finalized a new one-hour standard for sulfur dioxide, and states are required to identify areas that meet those standards and areas that are in non-attainment. For non-attainment areas, states are required to develop plans by 2014 to achieve attainment by 2017. For areas in attainment or unclassifiable, states are required to develop maintenance plans by mid-2013 that demonstrate continued attainment. PPL, PPL Energy Supply, LKE, LG&E and KU anticipate that some of the measures required for compliance with the CSAPR such as upgraded or new sulfur dioxide scrubbers at some of their plants or, in the case of LG&E and KU, retirement of the Cane Run, Green River, and Tyrone plants, may also be necessary to achieve compliance with new sulfur dioxide standards. If additional reductions were to be required, the economic impact to each could be significant.

Mercury and other Hazardous Air Pollutants

Citing its authority under the Clean Air Act, in 2005, the EPA issued the Clean Air Mercury Rule (CAMR) affecting coal-fired power plants. Since the CAMR was overturned in a 2008 U.S. Circuit Court decision, the EPA is now proceeding to develop standards imposing MACT for mercury emissions and other hazardous air pollutants from electric generating units. Under a recently approved settlement, the EPA was required to issue final MACT standards in 2011. In order to develop these standards, the EPA has collected information from coal- and oil-fired electric utility steam generating units. In May 2011, the EPA published a proposed MACT regulation providing for stringent reductions of mercury and other hazardous air pollutants. The proposed rule also provides for a three-year compliance deadline, with the potential for a one-year extension as provided under the statute. Based on their assessment of the need to install pollution control equipment to meet this rule, LG&E and KU have filed requests with the KPSC for environmental cost recovery to facilitate moving forward with plans to install environmental controls including sorbent injection and fabric-filter baghouses to remove certain hazardous air pollutants. The cost for these controls is reflected in the costs of $1.4 billion for LG&E and $1.1 billion for KU noted under "Air" above. LG&E and KU have also announced the future retirement of coal-fired generating units at the Cane Run, Green River, and Tyrone plants and have filed requests with the KPSC for replacement of those units with natural gas-fired generating units to be constructed or purchased. The potential economic impact on PPL Energy Supply plants, including plant closures or other actions, cannot be estimated at this time, however, such impact could be significant. PPL Energy Supply, LG&E and KU are continuing to conduct in-depth reviews of the proposed rule.

Regional Haze and Visibility

The Clean Air Visibility Rule was issued by the EPA in June 2005 to address regional haze or regionally-impaired visibility caused by multiple sources over a wide area. The rule requires Best Available Retrofit Technology (BART) for certain electric generating units. Under the BART rule, PPL submitted to the PADEP its analyses of the visibility impacts of particulate matter emissions from Martins Creek Units 3 and 4, Brunner Island Units 2 and 3 and Montour Units 1 and 2. No analysis was submitted for sulfur dioxide or nitrogen oxides, because the EPA determined that meeting the requirements for the CAIR also satisfies the BART requirements for those pollutants. Although the EPA has not yet expressly stated that a similar approach will be taken under the CSAPR, the EPA has not requested any further studies. PPL's analyses have shown that, because PPL had already upgraded its particulate emissions controls at Montour Units 1 and 2 and Brunner Island

Units 2 and 3, further controls are not justified as there would be little corresponding visibility improvement. PPL has not received comments from the PADEP on these submissions.

In Montana, the EPA Region 8 is developing the regional haze plan as the Montana Department of Environmental Quality declined to develop a BART state implementation plan at this time. PPL submitted to the EPA its analyses of the visibility impacts of sulfur dioxide, nitrogen oxides and particulate matter emissions for Colstrip Units 1 and 2 and Corette. PPL's analyses concluded that further reductions are not warranted. The EPA responded to PPL's reports for Colstrip and Corette and requested further information and analysis. PPL completed further analysis and submitted addendums to its initial reports for Colstrip and Corette. In February 2009, PPL received an information request for data related to the non-BART-affected emission sources of Colstrip Units 3 and 4. PPL responded to this request in March 2009.

In November 2010, PPL Montana received a request from the EPA Region 8, under the EPA's Reasonable Further Progress goals of the Regional Haze Rules, to provide further analysis with respect to Colstrip Units 3 and 4. PPL completed a high-level analysis of various control options to reduce emissions of sulfur dioxide and particulate matter for these units, and submitted that analysis to the EPA in January 2011. The analysis shows that any incremental reductions would not be cost effective and that further analysis is not warranted. PPL also concluded that further analysis for nitrogen oxides was not justifiable as these units installed controls under a Consent Decree in which the EPA had previously agreed that, when implemented, would satisfy the requirements for installing the BART for nitrogen oxides. The EPA has indicated that it does not agree with all of PPL's conclusions and has requested additional information to which PPL is responding. Additionally, the EPA recently informally indicated to PPL Montana that substantially more reductions in both nitrogen oxide and sulfur dioxide emissions may be required at Colstrip. Discussions with the EPA are ongoing with respect to this issue.

PPL and PPL Energy Supply cannot predict whether any additional reductions in emissions will be required in Pennsylvania or Montana. If additional reductions are required, the economic impact could be significant depending on what is required.

LG&E and KU also submitted analyses of the visibility impacts of their Kentucky BART-eligible sources to the Kentucky Division for Air Quality (KDAQ). Only LG&E's Mill Creek plant was determined to have a significant regional haze impact. The KDAQ has submitted a regional haze state implementation plan (SIP) to the EPA which requires the Mill Creek plant to reduce its sulfuric acid mist emissions from Units 3 and 4. After approval of the Kentucky SIP by the EPA and revision of the Mill Creek plant's Title V air permit, LG&E intends to install sorbent injection controls at the plant to reduce sulfuric acid mist emissions. In the event that the EPA determines that compliance with the CSAPR would be insufficient to meet the BART requirements, it would be necessary for LG&E and KU to reassess their planned compliance measures.

New Source Review (NSR)

The NSR regulations require major new or modified sources of regulated pollutants to receive pre-construction and operating permits with limits that prevent the significant deterioration of air quality in areas that are in attainment of the ambient air quality standards for certain pollutants.

The EPA has resumed its NSR enforcement efforts targeting coal-fired power plants. The EPA has asserted that modification of these plants has increased their emissions and, consequently, that they are subject to stringent NSR requirements under the Clean Air Act. In April 2009, PPL received EPA information requests for its Montour and Brunner Island plants. The requests are similar to those that PPL received several years ago for its Colstrip, Corette and Martins Creek plants. PPL and the EPA have exchanged certain information regarding this matter. In January 2009, PPL and other companies that own or operate the Keystone plant in Pennsylvania received a notice of violation from the EPA alleging that certain projects were undertaken without proper NSR compliance. PPL and PPL Energy Supply cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In addition, in August 2007, LG&E and KU received information requests for their Mill Creek, Trimble County, and Ghent plants, but have received no further communications from the EPA since providing their responses. PPL, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In March 2009, KU received a notice of violation alleging that KU violated certain provisions of the Clean Air Act's rules governing NSR and prevention of significant deterioration by installing sulfur dioxide scrubbers and SCR controls at its Ghent generating station without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. In December 2009, the EPA issued an information request on this matter. KU has exchanged settlement proposals and other information with the EPA regarding imposition of additional permit limits and emission controls and anticipates continued settlement negotiations. In addition, any settlement or future litigation could potentially encompass a September 2007 notice of violation alleging opacity violations at the plant. Depending on the provisions of a final settlement or the results of litigation, if any, resolution of this matter could involve significant increased operating and capital expenditures. PPL, LKE and KU are currently unable to predict the final outcome of this matter, and cannot estimate a range of reasonably possible losses, if any.

If PPL subsidiaries are found to have violated NSR regulations, PPL would, among other things, be required to meet permit limits reflecting Best Available Control Technology (BACT) for the emissions of any pollutant found to have significantly increased due to a major plant modification. The costs to meet such limits, including installation of technology at certain units, could be significant.

States and environmental groups also have initiated enforcement actions and litigation alleging violations of the NSR regulations by coal-fired plants, and PPL is unable to predict whether such actions will be brought against any of PPL's plants.

TC2 Air Permit (PPL, LKE, LG&E and KU)

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the TC2 baseload generating unit, but the agency upheld the permit in an Order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit which were incorporated into a final revised permit issued by the KDAQ in January 2010. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot currently predict the outcome of this matter or the potential impact on the capital costs of this project, if any.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Global Climate Change

There is concern nationally and internationally about global climate change and the possible contribution of GHG emissions including, most significantly, carbon dioxide, from the combustion of fossil fuels. This has resulted in increased demands for carbon dioxide emission reductions from investors, environmental organizations, government agencies and the international community. These demands and concerns have led to federal legislative proposals, actions at regional, state and local levels, litigation relating to GHG emissions and the EPA regulations on GHGs.

Greenhouse Gas Legislation

While climate change legislation was considered during the 111th Congress, the outcome of the 2010 elections has halted the debate on such legislation in the current 112th Congress. The timing and elements of any future legislation addressing GHG emission reductions are uncertain at this time. In the current Congress, legislation barring the EPA from regulating GHG emissions under the existing authority of the Clean Air Act has been passed by the U.S. House of Representatives. Various bills providing for barring or delaying the EPA from regulating GHG emissions have been introduced in the U.S. Senate, but the prospects for passage of such legislation remain uncertain. At the state level, the 2010 elections in Pennsylvania have also reduced the likelihood of GHG legislation in the near term, and there are currently no prospects for such legislation in Kentucky or Montana.

Greenhouse Gas Regulations and Tort Litigation

As a result of the April 2007 U.S. Supreme Court decision that the EPA has the authority to regulate GHG emissions from new motor vehicles under the Clean Air Act, in April 2010, the EPA and the U.S. Department of Transportation issued new light-duty vehicle emissions standards that will apply beginning with 2012 model year vehicles. The EPA has also clarified that this standard triggers regulation of GHG emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act starting in 2011. This means that any new sources or major modifications to existing sources causing a net significant emissions increase requires BACT permit limits for GHGs. The EPA recently proposed guidance for conducting a BACT analysis for projects that trigger such a review. In addition, New Source Performance Standards for new and existing power plants were expected to be proposed in September 2011 and finalized in May 2012, but this has been delayed. The EPA is expected to announce a new schedule for this rulemaking by the end of 2011.

At the regional level, ten northeastern states signed a Memorandum of Understanding (MOU) agreeing to establish a GHG emission cap-and-trade program, called the Regional Greenhouse Gas Initiative (RGGI). The program commenced in January 2009 and calls for stabilizing carbon dioxide emissions, at base levels established in 2005, from electric power plants with capacity greater than 25 MW. The MOU also provides for a 10% reduction in carbon dioxide emissions from base levels by 2019.

Pennsylvania has not stated an intention to join the RGGI, but has enacted the Pennsylvania Climate Change Act of 2008 (PCCA). The PCCA established a Climate Change Advisory Committee to advise the PADEP on the development of a Climate Change Action Plan. In December 2009, the Advisory Committee finalized its Climate Change Action Report which identifies specific actions that could result in reducing GHG emissions by 30% by 2020. Some of the proposed actions, such as a mandatory 5% efficiency improvement at power plants, could be technically unachievable. To date, there have been no regulatory or legislative actions taken to implement the recommendations of the report. In addition, legislation has been introduced that would, if enacted, accelerate the solar supply requirements and restrict eligible solar projects to those located in Pennsylvania. PPL cannot predict at this time whether this legislation will be enacted.

Eleven Western states, including Montana and certain Canadian provinces, are members of the Western Climate Initiative (WCI). The WCI has established a goal of reducing carbon dioxide emissions 15% below 2005 levels by 2020 and is currently developing GHG emission allocations, offsets, and reporting recommendations.

In November 2008, the Governor of Kentucky issued a comprehensive energy plan including non-binding targets aimed at promoting improved energy efficiency, development of alternative energy, development of carbon capture and sequestration projects, and other actions to reduce GHG emissions. In December 2009, the Kentucky Climate Action Plan Council was established to develop an action plan addressing potential GHG reductions and related measures. A final plan is expected in 2011. The impact of any such plan is not now determinable, but the costs to comply with the plan could be significant.

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting facilities, and the law remains unsettled on these claims. In September 2009, the U.S. Court of Appeals for the Second Circuit in the case of AEP v. Connecticut reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In June 2011, the U.S. Supreme Court overturned the lower court and held that such federal common law claims were displaced by the Clean Air Act and regulatory actions of the EPA. In Comer v. Murphy Oil, the U.S. Court of Appeals for the Fifth Circuit declined to overturn a district court ruling that plaintiffs did not have standing to pursue state common law claims against companies that emit GHGs. The complaint in the Comer case named the previous indirect parent of LKE as a defendant based upon emissions from the Kentucky plants. In January 2011, the Supreme Court denied a pending petition to reverse the Court of Appeals' ruling. In May 2011, the plaintiffs in the Comer case filed a substantially similar complaint in federal district court in Mississippi against 87 companies, including KU and three other indirect subsidiaries of LKE, under a Mississippi statute that allows the re-filing of an action in certain circumstances. Additional litigation in federal and state courts over these issues is continuing. PPL, LKE and KU cannot predict the outcome of this litigation or estimate a range of reasonably possible losses, if any.

PPL continues to evaluate options for reducing, avoiding, off-setting or sequestering its carbon dioxide emissions. In 2010, PPL's power plants, including PPL's share of jointly owned assets, emitted approximately 37 million tons of carbon dioxide (including 6 million tons of emissions from the LKE plants after their acquisition on November 1, 2010) compared to 29 million tons in 2009 without LG&E and KU emissions. LG&E's and KU's generating fleets, including their share of jointly owned assets, emitted approximately 19 million tons and approximately 18 million tons of carbon dioxide in 2010, compared to approximately 17 million tons and approximately 16 million tons in 2009. All tons are U.S. short tons (2,000 lbs/ton).

Renewable Energy Legislation (PPL and PPL Energy Supply)

There has been interest in renewable energy legislation at both the state and federal levels. At the federal level, House and Senate bills proposed in the 111th Congress would have imposed mandatory renewable energy supply and energy efficiency requirements in the 15% to 20% range by approximately 2020. Earlier in the year, there were discussions regarding a Clean Energy Standard (CES) that addressed not only renewables but also encouraged clean energy requirements (as yet to be defined). At this time, neither the renewable energy debate nor the CES discussion is expected to gain momentum at the federal or state levels (beyond what is otherwise already required in Pennsylvania and Montana) in the near term.

PPL believes there are financial, regulatory and logistical uncertainties related to GHG reductions and the implementation of renewable energy mandates. These will need to be resolved before the impact of such requirements on PPL can be meaningfully estimated. Such uncertainties, among others, include the need to provide back-up supply to augment intermittent renewable generation, potential generation oversupply that could result from such renewable generation and back-up, impacts to PJM's capacity market and the need for substantial changes to transmission and distribution systems to accommodate renewable energy. These uncertainties are not directly addressed by proposed legislation. PPL and PPL Energy Supply cannot predict at this time the effect on their future competitive position, results of operation, cash flows and financial position, of any GHG emissions, renewable energy mandate or other global climate change requirements that may be adopted, although the costs to implement and comply with any such requirements could be significant.

Water/Waste

Coal Combustion Residuals (CCRs) (PPL, PPL Energy Supply, LKE, LG&E and KU)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs under the Resource Conservation and Recovery Act (RCRA). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The first approach would regulate CCRs as a hazardous waste under Subtitle C of the RCRA. This approach would have very significant impacts on any coal-fired plant, and would require plants to retrofit their operations to comply with full hazardous waste requirements for the generation of CCRs and associated waste waters through transportation and disposal. This would also have a negative impact on the beneficial use of CCRs and could eliminate existing markets for CCRs. The second approach would regulate CCRs as a solid waste under Subtitle D of the RCRA. This approach would mainly affect disposal and most significantly affect any wet disposal operations. Under this approach, many of the current markets for beneficial uses would not be affected. Currently, PPL expects that several of its plants in Kentucky and Montana could be significantly impacted by the requirements of Subtitle D of the RCRA, as these plants are using surface impoundments for management and disposal of CCRs.

The EPA has issued information requests on CCR management practices at numerous plants throughout the power industry as it considers whether or not to regulate CCRs as hazardous waste. PPL has provided information on CCR management practices at most of its plants in response to the EPA's requests. In addition, the EPA has conducted follow-up inspections to evaluate the structural stability of CCR management facilities at several PPL plants and PPL has implemented certain actions in response to recommendations from these inspections.

The EPA is continuing to evaluate the unprecedented number of comments it received on its June 2010 proposed regulations. In October 2011, the EPA issued a Notice of Data Availability (NODA) that requests comments on selected documents that the EPA received during the comment period for the proposed regulations. Comments are due on the NODA by November 2011. In addition, the U.S. House of Representatives in October 2011 approved a bill to modify Subtitle D of the RCRA to provide for the proper management and disposal of CCRs and that would preclude the EPA from regulating CCRs under Subtitle C of the RCRA. The bill has been introduced in the Senate and the prospect for passage of this legislation is uncertain.

In June 2009, the EPA's Office of Enforcement and Compliance Assurance issued a much broader information request to Colstrip and 18 other non-affiliated plants, seeking information under the RCRA, the Clean Water Act and the Emergency Planning and Community Right-to-Know Act. PPL responded to the EPA's broader information request. Although the EPA's enforcement office issued the request, the EPA has not necessarily concluded that the plants are in violation of any EPA requirements. The EPA conducted a multi-media inspection at Colstrip in August 2009 and issued a report in December 2010 stating that the EPA did not identify any violations of the applicable compliance standards for the Colstrip facility.

PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the final requirements of the EPA's CCR regulations or potential changes to the RCRA and what impact they would have on their facilities, but the economic impact could be significant.

Martins Creek Fly Ash Release (PPL and PPL Energy Supply)

In 2005, there was a release of approximately 100 million gallons of water containing fly ash from a disposal basin at the Martins Creek plant used in connection with the operation of the plant's two 150 MW coal-fired generating units. This resulted in ash being deposited onto adjacent roadways and fields, and into a nearby creek and the Delaware River. PPL determined that the release was caused by a failure in the disposal basin's discharge structure. PPL conducted extensive clean-up and completed studies, in conjunction with a group of natural resource trustees and the Delaware River Basin Commission, evaluating the effects of the release on the river's sediment, water quality and ecosystem.

The PADEP filed a complaint in Pennsylvania Commonwealth Court against PPL Martins Creek and PPL Generation, alleging violations of various state laws and regulations and seeking penalties and injunctive relief. PPL and the PADEP have settled this matter. The settlement also required PPL to submit a report on the completed studies of possible natural resource damages. PPL subsequently submitted the assessment report to the Pennsylvania and New Jersey regulatory agencies and has continued discussing potential natural resource damages and mitigation options with the agencies. Subsequently, in August 2011 the DEP submitted its National Resource Damage Assessment report to the court and to the intervenors. The settlement agreement for the Natural Resources Damage Claim has not yet been submitted to the court and for public comments.

Through September 30, 2011, PPL Energy Supply has spent $28 million for remediation and related costs and an insignificant remediation liability remains on the balance sheet. PPL and PPL Energy Supply cannot be certain of the outcome of the natural resource damage assessment or the associated costs, the outcome of any lawsuit that may be brought by citizens or businesses or the exact nature of any other regulatory or other legal actions that may be initiated against PPL, PPL Energy Supply or their subsidiaries as a result of the disposal basin release. However, PPL and PPL Energy Supply currently do not expect such outcomes to result in material losses above the amounts currently recorded.

Seepages and Groundwater Infiltration - Pennsylvania, Montana and Kentucky

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various PPL plants. PPL has completed or is completing assessments of seepages or groundwater infiltration at various facilities and is working with agencies to implement abatement measures, where required. A range of reasonably possible losses cannot currently be estimated.

(PPL and PPL Energy Supply)

In 2007, six plaintiffs filed a lawsuit in the Montana Sixteenth Judicial District Court against the Colstrip plant owners asserting property damage claims from seepage from wastewater ponds at Colstrip. A settlement agreement was reached in July 2010, but certain of the plaintiffs later argued that the settlement was not final. The Colstrip plant owners filed a motion to enforce the settlement and in October 2011 the court granted the motion and ordered the settlement to be completed in 60 days. It is not known if the plaintiffs will appeal the October order. The settlement is not yet final, and may not be honored by the plaintiffs, but PPL Montana's share is not expected to be significant.

Conemaugh River Discharges (PPL and PPL Energy Supply)

In April 2007, PennEnvironment and the Sierra Club brought a Clean Water Act citizen suit in the U.S. District Court for the Western District of Pennsylvania (the Western District Court) against GenOn Northeast Management Company (then known as Reliant Energy Northeast Management Company) (GenOn), as operator of Conemaugh Generating Station (CGS), seeking civil penalties and injunctive relief for alleged violations of CGS's NPDES water discharge permit. A PPL Energy Supply subsidiary holds a 16.25% undivided, tenant-in-common ownership interest in CGS.

Throughout the relevant time period, the operators of CGS have worked closely with the PADEP to ensure that the facility is operated in a manner that does not cause any adverse environmental impacts to the Conemaugh River, a waterway already significantly impacted by discharges from abandoned coal mines and other historical industrial activity with respect to which neither PPL nor CGS had any involvement. Pursuant to a Consent Order and Agreement between the PADEP and GenOn (the CGS COA), a variety of studies have been conducted, a water treatment facility for cooling tower blowdown has been designed and built, and a second treatment facility for sulfur dioxide scrubber waste water has been designed (and is awaiting final PADEP approval for construction), all in order to comply with the stringent limits set out in CGS's NPDES permit.

In March 2011, the Western District Court entered a partial summary judgment in the plaintiffs' favor, declaring that discharges from CGS violated the NPDES permit. Subsequently, the parties agreed to settle the dispute and in August 2011 the court entered a Consent Decree and Order resolving the mater. PPL Energy Supply's share of the settlement is not significant.

Other Issues (PPL, PPL Energy Supply, LKE, LG&E and KU)

In 2006, the EPA significantly decreased to 10 parts per billion (ppb) the drinking water standards related to arsenic. In Pennsylvania, Montana and Kentucky, this arsenic standard has been incorporated into the states' water quality standards and could result in more stringent limits in NPDES permits for PPL's Pennsylvania, Montana and Kentucky plants. Subsequently, the EPA developed a draft risk assessment for arsenic that increases the cancer risk exposure by more than 20 times, which would lower the current standard from 10 ppb to 0.1 ppb. If the lower standard becomes effective, costly treatment would be required to attempt to meet the standard and, at this time, there is no assurance that it could be achieved. PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the outcome of the draft risk assessment and what impact, if any, it would have on their facilities, but the costs could be significant.

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxics Substance Control Act, which currently allow certain PCB articles to remain in use. In April 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. This rulemaking could lead to a phase-out of all PCB-containing equipment. PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the outcome of these proposed EPA regulations and what impact, if any, they would have on their facilities, but the costs could be significant.

The EPA finalized requirements in 2004 for new or modified cooling water intake structures. These requirements affect where generating facilities are built, establish intake design standards and could lead to requirements for cooling towers at new and modified power plants. Another rule, finalized in 2004, that addressed existing structures was withdrawn following a 2007 decision by the U.S. Court of Appeals for the Second Circuit. In 2009, however, the U.S. Supreme Court ruled that the EPA has discretion to use cost-benefit analysis in determining the best technology available for minimizing adverse environmental impact to aquatic organisms. The EPA published the proposed rule in April 2011. The comment period ended in August 2011. The EPA is evaluating comments and meeting with industry groups to discuss options. The final rule is to be issued by July 2012. The industry and PPL reviewed the proposed rule and submitted comments. The proposed rule contains two requirements to reduce impact to aquatic organisms. The first requires all existing facilities to meet standards for the reduction of mortality of aquatic organisms that become trapped against water intake screens regardless of the levels of mortality actually occurring or the cost of achieving the requirements. The second requirement is to determine and install best technology available to reduce mortality of aquatic organisms that are pulled through the plant's cooling water system. A form of cost-benefit analysis is allowed for this second requirement. This process involves a site-specific evaluation based on nine factors including impacts to energy delivery reliability and remaining useful life of the plant. Since the rule is written to allow for certain site-specific determinations of the best technology available, state implementation of the rule could impose requirements that could result in significant costs to PPL plants ranging from installation of fine mesh screens on cooling water intakes to construction of cooling towers. PPL, PPL Energy Supply, LKE, LG&E and KU will be unable to determine the exact impact until a final rule is issued and the required studies have been completed.

In October 2009, the EPA released its Final Detailed Study of the Steam Electric Power Generating effluent limitations guidelines and standards. Final regulations are expected to be effective in January 2014. PPL expects the revised guidelines and standards to be more stringent than the current standards especially for sulfur dioxide scrubber wastewater and ash basin discharges, which could result in more stringent discharge permit limits. In the interim, PPL is unable to predict whether the EPA and the states may impose more stringent limits on a case-by-case best professional judgment basis under existing authority as permits are renewed.

PPL has signed a Consent Order and Agreement (the Brunner COA) with the PADEP under which it agreed, under certain conditions, to take further actions to minimize the possibility of fish kills at its Brunner Island plant. Fish are attracted to warm water in the power plant discharge channel, especially during cold weather. Debris at intake pumps can result in a unit trip or reduction in load, causing a sudden change in water temperature. PPL has committed to construct a barrier to prevent debris from entering the river water intake area, pending receipt of regulatory permits, at a cost of approximately $4 million.

PPL has also investigated alternatives to exclude fish from the discharge channel and submitted three alternatives to the PADEP. According to the Brunner COA, once the cooling towers at Brunner Island became operational, PPL must implement one of these fish exclusion alternatives if a fish kill occurs in the discharge channel due to thermal impacts from the plant . Following start-up of the cooling towers in April 2010, several hundred dead fish were found in the cooling tower intake basket although there were no sudden changes in water temperature. In the third quarter of 2010, PPL discussed this matter with the PADEP and both parties agreed that this condition was not one anticipated by the Brunner COA, thereby concluding it did not trigger a need to implement a fish exclusion project. At this time, no fish exclusion project is planned.

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County station. In November 2010, the Cabinet issued a final order upholding the permit. In December 2010, the environmental groups appealed the order to Trimble Circuit Court. PPL, LKE, LG&E, and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible losses, if any.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Superfund and Other Remediation

PPL Electric is a potentially responsible party at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site, the Metal Bank site and the Ward Transformer site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been significant to PPL Electric. However, should the EPA require different or additional measures in the future, or should PPL Electric's share of costs at multi-party sites increase significantly more than currently expected, the costs could be significant.

PPL Electric, LG&E and KU are remediating or have completed the remediation of several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing facilities in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates, for which PPL Electric, LG&E and

KU lack information on current site conditions and are therefore unable to predict what, if any, potential liability they may have.

In June 2011, Lepore-Moyers Partnership (LMP) filed a complaint in federal district court against PPL Electric, UGI Corporation and a neighboring property owner relating to contamination allegedly emanating from the former Mount Joy Manufactured Gas Plant (MGP) site located in Lancaster County, Pennsylvania. LMP owns property adjacent to the Mount Joy MGP site and claims that environmental testing done on its property indicates the presence of volatile organic compounds in the soil and/or groundwater. LMP claims that defendants are responsible for, among other things, the reimbursement of costs, future response costs, investigation and remediation of the contamination, and damages caused by the contamination. PPL Electric cannot estimate a range of reasonably possible losses, if any, or predict the outcome of this matter.

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which PPL currently lacks information, the costs of remediation and other liabilities could be substantial. PPL and its subsidiaries also could incur other non-remediation costs at sites included in current consent orders or other contaminated sites which could be significant. PPL is unable to estimate a range of reasonably possible losses, if any, related to these matters.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing facilities. PPL cannot estimate a range of reasonably possible losses, if any, related to these matters.

Under the Pennsylvania Clean Streams Law, subsidiaries of PPL Generation are obligated to remediate acid mine drainage at former mine sites and may be required to take additional steps to prevent potential acid mine drainage at previously capped refuse piles. One PPL Generation subsidiary is pumping mine water at two mine sites and treating water at one of these sites. Another PPL Generation subsidiary has installed a passive wetlands treatment system at a third site. At September 30, 2011, PPL Energy Supply had accrued a discounted liability of $26 million to cover the costs of pumping and treating groundwater at the two mine sites for 50 years and for operating and maintaining passive wetlands treatment at the third site. PPL Energy Supply discounted this liability based on risk-free rates at the time of the mine closures. The weighted-average rate used was 8.16%. Expected undiscounted payments are estimated at $2 million for 2011, $1 million for each of the years from 2012 through 2014, $2 million for 2015, and $137 million for work after 2015.

From time to time, PPL undertakes remedial action in response to spills or other releases at various on-site and off-site locations, negotiates with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiates with property owners and other third parties alleging impacts from PPL's operations, and undertakes similar actions necessary to resolve environmental matters which arise in the course of normal operations. Based on analyses to date, resolution of these general environmental matters is not expected to have a material adverse impact on PPL's operations.

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in material additional costs for PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

Electric and Magnetic Fields

Concerns have been expressed by some members of the public regarding potential health effects of power frequency EMFs, which are emitted by all devices carrying electricity, including electric transmission and distribution lines and substation equipment. Government officials in the U.S. and the U.K. have reviewed this issue. The U.S. National Institute of Environmental Health Sciences concluded in 2002 that, for most health outcomes, there is no evidence that EMFs cause adverse effects. The agency further noted that there is some epidemiological evidence of an association with childhood leukemia, but that the evidence is difficult to interpret without supporting laboratory evidence. The U.K. National Radiological Protection Board (part of the U.K. Health Protection Agency) concluded in 2004 that, while the research on EMFs does not provide a basis to find that EMFs cause any illness, there is a basis to consider precautionary measures beyond existing exposure guidelines. The Stakeholder Group on Extremely Low Frequency EMF, set up by the U.K. Government, has issued two reports, one in April 2007 and one in June 2010, describing options for reducing public exposure to EMF. The U.K. Government responded to the first report in 2009, agreeing to some of the proposals, including a proposed voluntary code to optimally phase 132 kilovolt overhead lines to reduce public exposure to EMF where it is cost effective to do so. The U.K. Government is currently considering the second report which concentrates on EMF exposure from distribution systems. PPL and its subsidiaries believe the current efforts to determine whether EMFs cause adverse health effects should continue and are taking steps to reduce EMFs, where practical, in the design of new transmission and distribution facilities. PPL and its subsidiaries are unable to predict what effect, if any, the EMF issue might have on their operations and facilities either in the U.S. or the U.K., and the associated cost, or what, if any, liabilities they might incur related to the EMF issue.

Environmental Matters - WPD *(PPL)*

WPD's distribution businesses are subject to environmental regulatory and statutory requirements. PPL believes that WPD has taken and continues to take measures to comply with the applicable laws and governmental regulations for the protection of the environment.

The U.K. Government has requested that utilities undertake projects to alleviate the impact of flooding on the U.K. utility infrastructure, including major electricity substations. WPD has agreed with the Ofgem to spend $46 million on flood prevention, which will be recovered through rates during the five-year period commencing April 2010. WPD is currently liaising on site-specific proposals with local offices of a U.K. Government agency.

The U.K. Government recently passed legislation that imposes a duty on certain companies, including WPD, to report on climate change adaptation. The first information request was received by WPD in March 2010 and submissions for all four distribution network operators were made in June 2011. Responses to these reports from the U.K. Government are expected by the end of 2011. WPD has worked with other U.K. electricity network operators to undertake research with the internationally recognized U.K. Met Office (the national weather service) and to report using common agreed methodology.

There are no other material legal or administrative proceedings pending against or related to WPD with respect to environmental matters. See "Electric and Magnetic Fields" above for a discussion of EMFs.

Other

Nuclear Insurance *(PPL and PPL Energy Supply)*

PPL Susquehanna is a member of certain insurance programs that provide coverage for property damage to members' nuclear generating plants. Facilities at the Susquehanna plant are insured against property damage losses up to $2.75 billion under these programs. PPL Susquehanna is also a member of an insurance program that provides insurance coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the property and replacement power insurance programs, PPL Susquehanna could be assessed retroactive premiums in the event of the insurers' adverse loss experience. At September 30, 2011, this maximum assessment was $44 million.

In the event of a nuclear incident at the Susquehanna plant, PPL Susquehanna's public liability for claims resulting from such incident would be limited to $12.6 billion under provisions of The Price-Anderson Act Amendments under the Energy Policy Act of 2005. PPL Susquehanna is protected against this liability by a combination of commercial insurance and an industry assessment program.

In the event of a nuclear incident at any of the reactors covered by The Price-Anderson Act Amendments under the Energy Policy Act of 2005, PPL Susquehanna could be assessed up to $235 million per incident, payable at $35 million per year.

At September 30, 2011, the property, replacement power and nuclear incident insurers maintained an A.M. Best financial strength rating of A ("Excellent").

Employee Relations *(PPL, LKE and KU)*

In July 2011, KU and its employees represented by the United Steelworkers of America agreed to a six-month extension of their current collective bargaining agreement, previously scheduled to expire in August 2011, which extension includes a 3% wage increase through the new expiration date. In July 2011, KU and its employees represented by IBEW Local 2100 completed annual reopener negotiations and agreed to a 3% wage increase.

Guarantees and Other Assurances

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

In the normal course of business, PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries enter.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

The table below details guarantees provided as of September 30, 2011. The total recorded liability at September 30, 2011 and December 31, 2010, was $16 million and $14 million for PPL and $11 million for both periods for LKE. Other than as noted in the descriptions for "WPD guarantee of pension and other obligations of unconsolidated entities," the probability of expected payment/performance under each of these guarantees is remote.

	Exposure at September 30, 2011 (a)	Expiration Date
PPL		
Indemnifications for sale of PPL Gas Utilities	$ 300 (b)	
Indemnifications related to the WPD Midlands acquisition	(c)	
WPD indemnifications for entities in liquidation and sales of assets	287 (d)	2013 - 2018
WPD guarantee of pension and other obligations of unconsolidated entities	66 (e)	2015
Tax indemnification related to unconsolidated WPD affiliates	8 (f)	2012
PPL Energy Supply (g)		
Letters of credit issued on behalf of affiliates	20 (h)	2011 - 2014
Retrospective premiums under nuclear insurance programs	44 (i)	
Nuclear claims assessment under The Price-Anderson Act Amendments under The Energy Policy Act of 2005	235 (j)	
Indemnifications for sales of assets	338 (k)	2012 - 2025
Indemnification to operators of jointly owned facilities	6 (l)	
Guarantee of a portion of a divested unconsolidated entity's debt	22 (m)	2018
LKE (n)		
Indemnification of lease termination and other divestitures	301 (o)	2021 - 2023
LG&E and KU (p)		
LG&E and KU guarantee of shortfall related to OVEC	(q)	2040

(a) Represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee.

(b) PPL has provided indemnification to the purchaser of PPL Gas Utilities and Penn Fuel Propane, LLC for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including certain pre-closing unknown environmental liabilities relating to former manufactured gas plant properties or off-site disposal sites, if any, outside of Pennsylvania. The indemnification provisions for most representations and warranties, including tax and environmental matters, are capped at $45 million, in the aggregate, and are triggered (i) only if the individual claim exceeds $50,000, and (ii) only if, and only to the extent that, in the aggregate, total claims exceed $4.5 million. The indemnification provisions for most representations and warranties expired on September 30, 2009 without any claims having been made. Certain representations and warranties, including those having to do with transaction authorization and title, survive indefinitely, are capped at the purchase price and are not subject to the above threshold or deductible. The indemnification provision for the tax matters representations survives for the duration of the applicable statute of limitations, and the indemnification provision for the environmental matters representations survives for a period of three years after the transaction closing. The indemnification provision for the environmental matters representations expired on September 30, 2011 without any claims having been made. The indemnification for covenants survives until the applicable covenant is performed and is not subject to any cap.

(c) WPD Midlands Holdings Limited (formerly Central Networks Limited) had agreed prior to the acquisition to indemnify certain former directors of a Turkish entity in which WPD Midlands Holdings Limited previously owned an interest for any liabilities that may arise as a result of an investigation by Turkish tax authorities, and PPL WEM has received a cross-indemnity from E.ON AG with respect to these indemnification obligations. Additionally, PPL subsidiaries agreed to provide indemnifications to subsidiaries of E.ON AG for certain liabilities relating to properties and assets owned by affiliates of E.ON AG that were or are to be transferred to WPD Midlands in connection with the acquisition. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped by and there is no expiration date in the transaction documents.

(d) In connection with the liquidation of wholly owned subsidiaries that have been deconsolidated upon turning the entities over to the liquidators, certain affiliates of PPL Global have agreed to indemnify the liquidators, directors and/or the entities themselves for any liabilities or expenses arising during the liquidation process, including liabilities and expenses of the entities placed into liquidation. In some cases, the indemnifications are limited to a maximum amount that is based on distributions made from the subsidiary to its parent either prior or subsequent to being placed into liquidation. In other cases, the maximum amount of the indemnifications is not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases in which the agreements provide for a specific limit on the amount of the indemnification, and the expiration date was based on an estimate of the dissolution date of the entities.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters. In addition, in connection with certain of these sales, WPD and its affiliates have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Finally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

(e) As a result of the privatization of the utility industry in the U.K., certain electric associations' roles and responsibilities were discontinued or modified. As a result, certain obligations, primarily pension-related, associated with these organizations have been guaranteed by the participating members. Costs are allocated to the members based on predetermined percentages as outlined in specific agreements. However, if a member becomes insolvent, costs can be reallocated to and are guaranteed by the remaining members. At September 30, 2011, WPD has recorded an estimated discounted liability based on its current allocated percentage of the total expected costs for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements. Therefore, they have been estimated based on the types of obligations.

(f) Two WPD unconsolidated affiliates were refinanced during 2005. Under the terms of the refinancing, WPD has indemnified the lender against certain tax and other liabilities.

(g) Other than the letters of credit, all guarantees of PPL Energy Supply, on a consolidated basis, also apply to PPL on a consolidated basis for financial reporting purposes.

(h) Standby letter of credit arrangements under PPL Energy Supply's credit facilities for the purposes of protecting various third parties against nonperformance by PPL. This is not a guarantee by PPL on a consolidated basis.

(i) PPL Susquehanna is contingently obligated to pay this amount related to potential retrospective premiums that could be assessed under its nuclear insurance programs. See "Nuclear Insurance" above for additional information.

(j) This is the maximum amount PPL Susquehanna could be assessed for each incident at any of the nuclear reactors covered by this Act. See "Nuclear Insurance" above for additional information.

(k) PPL Energy Supply's maximum exposure with respect to certain indemnifications and the expiration of the indemnifications cannot be estimated because, in the case of certain indemnification provisions, the maximum potential liability is not capped by the transaction documents and the expiration date is based on the applicable statute of limitations. The exposure and expiration dates noted are only for those cases in which the agreements provide for specific limits.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchaser of the Long Island generation business for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including liabilities relating to certain renewable energy facilities which were previously owned by one of the PPL subsidiaries sold in the transaction but which were unrelated to the Long Island generation business. The indemnification provisions are subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of most representations and warranties. The indemnification provisions for most representations and warranties expired in the third quarter of 2011.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchasers of the Maine hydroelectric facilities for damages arising out of any breach of the representations, warranties and covenants under the respective transaction agreements and for damages arising out of certain other matters, including liabilities of the PPL Energy Supply subsidiary relating to the pre-closing ownership or operation of those hydroelectric facilities. The indemnification obligations are subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of representations and warranties. The indemnification provisions for certain representations and warranties expired in the second quarter of 2011.

Subsidiaries of PPL Energy Supply have agreed to provide indemnification to the purchasers of certain non-core generation facilities sold in March 2011 (see Note 8 for additional information) for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreements and for damages arising out of certain other matters relating to the facilities that were the subject of the transaction, including certain reduced capacity payments (if any) at one of the facilities in the event specified PJM rule changes are proposed and become effective. The indemnification provisions are subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of most representations and warranties.

(l) In December 2007, a subsidiary of PPL Energy Supply executed revised owners agreements for two jointly owned facilities, the Keystone and Conemaugh generating stations. The agreements require that in the event of any default by an owner, the other owners fund contributions for the operation of the generating stations, based upon their ownership percentages. The maximum obligation among all owners, for each station, is currently $20 million. The non-defaulting owners, who make up the defaulting owner's obligations, are entitled to the generation entitlement of the defaulting owner, based upon their ownership percentage. The agreements do not have an expiration date.

(m) A PPL Energy Supply subsidiary owned a one-third equity interest in Safe Harbor Water Power Corporation (Safe Harbor) that was sold in March 2011. Beginning in 2008, PPL Energy Supply guaranteed one-third of any amounts payable with respect to certain senior notes issued by Safe Harbor. Under the terms of the sale agreement, PPL Energy Supply continues to guarantee the portion of Safe Harbor's debt, but received a cross-indemnity from the purchaser in the event PPL Energy Supply is required to make a payment under the guarantee. Exposure noted reflects principal only. See Note 8 for additional information on the sale of this interest.

(n) All guarantees of LKE, on a consolidated basis, also apply to PPL on a consolidated basis for financial reporting purposes.

(o) LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of $200 million. Certain items such as non-excluded government fines and penalties fall outside the cumulative cap. Another guarantee with a maximum exposure of $100 million covering other indemnifications expires in 2023. Certain matters are currently under discussion among the parties, including one matter currently in arbitration and a further matter for which LKE is contesting the applicability of the indemnification requirement. The matter in arbitration may be ruled upon during early 2012, which ruling may result in increases or decreases to the liability estimate LKE has currently recorded. The ultimate outcome of both matters cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum amount limits range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. No additional material loss is anticipated by reason of such indemnification.

(p) All guarantees of LG&E and KU also apply to LKE on a consolidated basis for financial reporting purposes.

(q) As described in the "Energy Purchase Commitments" section of this footnote, pursuant to a power purchase agreement with OVEC, LG&E and KU are obligated to pay a demand charge which includes, among other charges, decommissioning costs, postretirement and post employment benefits. The demand charge is expected to cover the full cost of these items over the term of the contract. However, in the event there is a shortfall in covering these costs, LG&E and KU are obligated to pay their share of the excess.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU and their subsidiaries provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, PPL and its subsidiaries have not made any significant payments with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage requires a maximum $4 million deductible per occurrence and provides maximum aggregate coverage of $200 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

11. Related Party Transactions

PLR Contracts/Purchase of Accounts Receivable *(PPL Energy Supply and PPL Electric)*

PPL Electric holds competitive solicitations for PLR generation supply. See Note 10 for additional information on the solicitations. PPL EnergyPlus has been awarded a portion of the supply. PPL Electric's purchases from PPL EnergyPlus totaled $5 million and $15 million for the three and nine months ended September 30, 2011 and $71 million and $250 million during the same periods in 2010, and are included in the Statements of Income as "Wholesale energy marketing to affiliate" by PPL Energy Supply and as "Energy purchases from affiliate" by PPL Electric.

Under the standard Supply Master Agreement for the bid solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. In no instance is PPL Electric required to post collateral to suppliers under these supply contracts. PPL EnergyPlus is required to post collateral with PPL Electric: (a) when the market price of electricity to be delivered by PPL EnergyPlus exceeds the contract price for the forecasted quantity of electricity to be delivered and (b) this market price exposure exceeds a contractual credit limit. Based on the current credit rating of PPL Energy Supply, as guarantor, this credit limit is $35 million at September 30, 2011.

PPL Electric's customers may elect to procure generation supply from an alternative supplier. See Note 2 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including PPL EnergyPlus.

At September 30, 2011, PPL Energy Supply had a net credit exposure of $16 million to PPL Electric from its commitment as a PLR supplier and from the sale of its accounts receivable to PPL Electric.

Wholesale Sales and Purchases *(LG&E and KU)*

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail native load. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail native load and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are recorded by each company as intercompany wholesale sales and purchases in the Statements of Income as "Electric revenue from affiliate" and "Energy purchases from affiliate" and are recorded by each company at a price equal to the seller's variable cost. Savings realized from such intercompany electricity purchasing, instead of generating from their own higher cost units or purchasing from the market, are shared equally between the two companies. The volume of energy each company has to sell to the other is dependent on its native load needs and its available generation.

Intercompany electric revenues and energy purchases for the periods ended September 30 were as follows.

	Three Months		Nine Months	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
LG&E sales and KU purchases	$ 17	$ 23	$ 61	$ 71
LG&E purchases and KU sales	7	3	25	13

Allocations of PPL Services Costs *(PPL Energy Supply, PPL Electric and LKE)*

PPL Services provides corporate functions such as financial, legal, human resources and information technology services. PPL Services charges the respective PPL subsidiaries for the cost of certain services when they can be specifically identified. The cost of services that is not directly charged to PPL subsidiaries is allocated to applicable subsidiaries based on an average of the subsidiaries' relative invested capital, operation and maintenance expenses and number of employees. PPL Services allocated the following amounts, which PPL management believes are reasonable, including amounts applied to accounts that are further distributed between capital and expense for the periods ended September 30.

	Three Months		Nine Months	
	2011	**2010**	**2011**	**2010**
PPL Energy Supply	$ 44	$ 55	$ 138	$ 170
PPL Electric	34	36	108	101
LKE	3	n/a	12	n/a

Intercompany Billings *(LG&E and KU)*

LG&E and KU Services Company provides LG&E and KU with a variety of centralized administrative, management and support services. Associated charges include payroll taxes paid by LG&E and KU Services Company on behalf of LG&E and KU, labor and burdens of LG&E and KU Services Company employees performing services for LG&E and KU, coal purchases and other vouchers paid by LG&E and KU Services Company on behalf of LG&E and KU. The cost of these services is directly charged to the company, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and/or other statistical information. These costs are charged on an actual cost basis.

In addition, LG&E and KU provide services to each other and to LG&E and KU Services Company. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LG&E and KU Services Company.

LG&E and KU Services Company allocated these amounts, which LKE management believes are reasonable, including amounts that are further distributed between capital and expense for the periods ended September 30. Intercompany billings for the periods ended September 30 were as follows.

	Three Months		Nine Months	
	2011	**2010**	**2011**	**2010**
	Successor	**Predecessor**	**Successor**	**Predecessor**
LG&E and KU Services Company billing to LG&E	$ 51	$ 42	$ 134	$ 153
LG&E and KU Services Company billing to KU	44	53	148	170
LG&E billings to KU	26	28	82	47
KU billings to LG&E				1

Intercompany Borrowings

(PPL Energy Supply)

A PPL Energy Supply subsidiary holds revolving lines of credit from certain affiliates. There were no balances outstanding at September 30, 2011 and December 31, 2010. Interest earned on the borrowings was not significant for the three months ended September 30, 2011 and for the three and nine months ended September 30, 2010. For the nine months ended September 30, 2011, interest earned on the borrowings was $6 million, substantially all of which was attributable to borrowings by PPL Energy Funding that had an average interest rate of 3.73% for the nine months ended September 30, 2011.

(LKE)

After PPL's acquisition of LKE in November 2010, LKE held a note receivable from a PPL affiliate. At September 30, 2011, $53 million was outstanding compared with $61 million at December 31, 2010. The interest rate on the outstanding borrowing at September 30, 2011, was 2.22%. During the three and nine months ended September 30, 2011, interest income on this note was not significant.

LKE maintains a $300 million revolving line of credit with a PPL Energy Supply subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. There was no balance outstanding at September 30, 2011 or December 31, 2010.

Interest expense incurred on the revolving line of credit with the PPL Energy Supply subsidiary was not significant for the three and nine months ended September 30, 2011.

Prior to PPL's acquisition of LKE in November 2010, LKE had revolving credit facilities and several short-term and long-term loans with its former E.ON AG affiliates. During the three and nine months ended September 30, 2010, LKE incurred interest expense on these debt arrangements of $39 million and $118 million which is included in the Statements of Income as "Interest Expense with Affiliate." The consolidated debt had a weighted-average interest rate of 2.06% at September 30, 2010. Any such borrowings were repaid in 2010 prior to or at the time of the acquisition by PPL.

(LG&E)

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to $400 million at market-based rates (based on highly-rated commercial paper issues). At September 30, 2011, there was no balance outstanding. At December 31, 2010, $12 million was outstanding. The interest rate for the period ended December 31, 2010 was 0.25%.

Interest expense incurred on the money pool agreement with LKE and/or KU was not significant for the three and nine months ended September 30, 2011 and 2010.

Prior to PPL's acquisition of LKE in November 2010, LG&E had long-term loans from its former E.ON AG affiliates. During the three and nine months ended September 30, 2010, LG&E incurred interest expense related to these debt arrangements of $6 million and $20 million. The long-term loans had a weighted-average interest rate of 5.49% at September 30, 2010. Any such borrowings were repaid in 2010 prior to or at the time of the acquisition by PPL.

(KU)

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to $400 million at market-based rates (based on highly rated commercial paper issues). At September 30, 2011, there was no balance outstanding. At December 31, 2010, $10 million was outstanding. The interest rate for the period ended December 31, 2010 was 0.25%.

Interest expense incurred on the money pool agreement with LKE and/or LG&E was not significant for the three and nine months ended September 30, 2011 and 2010.

Prior to PPL's acquisition of LKE in November 2010, KU had long-term loans from its former E.ON AG affiliates. During the three and nine months ended September 30, 2010, KU incurred interest expense on these debt arrangements of $18 million and $55 million. The long-term loans had a weighted-average interest rate of 5.50% at September 30, 2010. Any such borrowings were repaid in 2010 prior to or at the time of the acquisition by PPL.

(PPL Energy Supply)

Trademark Royalties

A PPL subsidiary owns PPL trademarks and bills certain affiliates for their use. PPL Energy Supply was allocated $10 million and $30 million of this license fee for the three and nine months ended September 30, 2011 and 2010. These allocations are primarily included in "Other operation and maintenance" on the Statements of Income.

Distribution of Interest in PPL Global to Parent

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 8 for additional information.

Intercompany Insurance *(PPL Electric)*

PPL Power Insurance Ltd. (PPL Power Insurance) is a subsidiary of PPL that provides insurance coverage to PPL and its subsidiaries for property damage, general/public liability and workers' compensation.

Due to damages resulting from several PUC-reportable storms that occurred during the three and nine months ended September 30, 2011, PPL Electric has exceeded its deductible for the 2011 policy year. Probable recoveries on insurance claims with PPL Power Insurance of $12 million and $26.5 million were recorded during the three and nine months ended September 30, 2011, of which $7 million and $16 million were included in "Other operation and maintenance" on the Statement of Income. The remainder was recorded in PP&E on the Balance Sheet.

12. Other Income (Expense) - net

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The breakdown of "Other Income (Expense) - net" for the periods ended September 30 was:

	Three Months		Nine Months	
	2011	2010	2011	2010
PPL				
Other Income				
Earnings on securities in NDT funds	$ 2	$ 4	$ 20	$ 15
Interest income	1	3	5	4
AFUDC	2	1	5	3
Net hedge gains associated with the 2011 Bridge Facility (a)			55	
Gain on redemption of debt (b)	22		22	
Miscellaneous - Domestic	3	1	10	5
Miscellaneous - International			1	1
Total Other Income	30	9	118	28
Other Expense				
Economic foreign currency exchange contracts	(11)	1	(11)	(1)
Charitable contributions	2		7	2
Cash flow hedges (c)		29		29
LKE other acquisition-related costs		4		11
WPD Midlands other acquisition-related costs			36	
Foreign currency loss on 2011 Bridge Facility (d)			57	
U.K. stamp duty tax			21	
Miscellaneous - Domestic	2	1	7	4
Miscellaneous - International			3	1
Total Other Expense	(7)	35	120	46
Other Income (Expense) - net	$ 37	$ (26)	$ (2)	$ (18)
PPL Energy Supply				
Other Income				
Earnings on securities in NDT funds	$ 2	$ 4	$ 20	$ 15
Miscellaneous	1	3	6	6
Total Other Income	3	7	26	21
Other Expense				
Miscellaneous	1	1	6	4
Total Other Expense	1	1	6	4
Other Income (Expense) - net	$ 2	$ 6	$ 20	$ 17

	Three Months		Nine Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
LKE				
Other Income				
Net derivative gains (losses)		$ 29		$ 19
Equity in earnings of unconsolidated affiliate	$ 1	2	$ 1	3
Miscellaneous		3	3	4
Total Other Income	1	34	4	26
Other Expense				
Charitable contributions	1		3	3
Miscellaneous		3	2	6
Total Other Expense	1	3	5	9
Other Income (Expense) - net	$	$ 31	$ (1)	$ 17

	Three Months		Nine Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
LG&E				
Other Income				
Net derivative gains (losses)		$ 29		$ 19
Miscellaneous			$ 2	1
Total Other Income		29	2	20
Other Expense				
Charitable contributions			2	1
Miscellaneous				2
Total Other Expense			2	3
Other Income (Expense) - net		$ 29	$	$ 17

(a) Represents a gain on foreign currency forward contracts that hedged the repayment of the 2011 Bridge Facility borrowing.
(b) In July 2011, as a result of PPL Electric's redemption of 7.125% Senior Secured Bonds due 2013, PPL recorded a gain on the accelerated amortization of the fair value adjustment to the debt recorded in connection with previously settled fair value hedges.
(c) As a result of the net proceeds from the sale of certain non-core generation facilities, coupled with the monetization of full-requirement sales contracts, debt that had been planned to be issued by PPL Energy Supply was no longer needed. As a result, hedge accounting associated with interest rate swaps entered into by PPL in anticipation of a debt issuance by PPL Energy Supply was discontinued. Associated net losses were reclassified from AOCI into earnings.
(d) Represents a foreign currency loss related to the repayment of the 2011 Bridge Facility borrowing.

"Other Income (Expense) - net" for the three and nine months ended September 30, 2011 and 2010 for PPL Electric is primarily AFUDC. KU amounts are not significant.

13. Fair Value Measurements and Credit Concentration

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). PPL and its subsidiaries use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	September 30, 2011				December 31, 2010			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	$ 1,511	$ 1,511			$ 925	$ 925		
Short-term investments - municipal debt securities					163	163		
Restricted cash and cash equivalents (a)	117	117			66	66		
Price risk management assets:								
Energy commodities	2,042	1	$ 1,990	$ 51	2,503		$ 2,452	$ 51
Interest rate swaps	5		5		15		15	
Foreign currency exchange contracts	21		21		11		11	
Cross-currency swaps	51		37	14	44		44	
Total price risk management assets	2,119	1	2,053	65	2,573		2,522	51

	September 30, 2011				December 31, 2010			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
NDT funds:								
Cash and cash equivalents	13	13			10	10		
Equity securities								
U.S. large-cap	260	180	80		303	207	96	
U.S. mid/small-cap	104	77	27		119	89	30	
Debt securities								
U.S. Treasury	82	82			75	75		
U.S. government sponsored agency	11		11		7		7	
Municipality	82		82		69		69	
Investment-grade corporate	37		37		33		33	
Other	3		3		1		1	
Receivables (payables), net	2		2		1	(1)	2	
Total NDT funds	594	352	242		618	380	238	
Auction rate securities (b)	24			24	25			25
Total assets	$ 4,365	$ 1,981	$ 2,295	$ 89	$ 4,370	$ 1,534	$ 2,760	$ 76
Liabilities								
Price risk management liabilities:								
Energy commodities	$ 1,191	$ 1	$ 1,165	$ 25	$ 1,552		$ 1,498	$ 54
Interest rate swaps	120		120		53		53	
Cross-currency swaps	2		2		9		9	
Total price risk management liabilities	$ 1,313	$ 1	$ 1,287	$ 25	$ 1,614		$ 1,560	$ 54
PPL Energy Supply								
Assets								
Cash and cash equivalents	$ 375	$ 375			$ 661	$ 661		
Restricted cash and cash equivalents (a)	53	53			26	26		
Price risk management assets:								
Energy commodities	2,041	1	$ 1,989	$ 51	2,503		$ 2,452	$ 51
Foreign currency exchange contracts					11		11	
Cross-currency swaps					44		44	
Total price risk management assets	2,041	1	1,989	51	2,558		2,507	51
NDT funds:								
Cash and cash equivalents	13	13			10	10		
Equity securities								
U.S. large-cap	260	180	80		303	207	96	
U.S. mid/small-cap	104	77	27		119	89	30	
Debt securities								
U.S. Treasury	82	82			75	75		
U.S. government sponsored agency	11		11		7		7	
Municipality	82		82		69		69	
Investment-grade corporate	37		37		33		33	
Other	3		3		1		1	
Receivables (payables), net	2		2		1	(1)	2	
Total NDT funds	594	352	242		618	380	238	
Auction rate securities (b)	19			19	20			20
Total assets	$ 3,082	$ 781	$ 2,231	$ 70	$ 3,883	$ 1,067	$ 2,745	$ 71
Liabilities								
Price risk management liabilities:								
Energy commodities	$ 1,190	$ 1	$ 1,164	$ 25	$ 1,541		$ 1,487	$ 54
Cross-currency swaps					9		9	
Total price risk management liabilities	$ 1,190	$ 1	$ 1,164	$ 25	$ 1,550		$ 1,496	$ 54
PPL Electric								
Assets								
Cash and cash equivalents	$ 261	$ 261			$ 204	$ 204		
Restricted cash and cash equivalents (c)	13	13			14	14		
Total assets	$ 274	$ 274			$ 218	$ 218		
LKE								
Assets								
Cash and cash equivalents	$ 170	$ 170			$ 11	$ 11		
Short-term investments - municipal debt securities					163	163		
Restricted cash and cash equivalents (c)	31	31			23	23		
Price risk management assets - energy commodities (d)	1		$ 1					
Total assets	$ 202	$ 201	$ 1		$ 197	$ 197		

	September 30, 2011				December 31, 2010			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Liabilities								
Price risk management liabilities:								
Energy commodities (e)	$ 1		$ 1		$ 2		$ 2	
Interest rate swaps (f)	57		57		34		34	
Total liabilities	$ 58		$ 58		$ 36		$ 36	
LG&E								
Assets								
Cash and cash equivalents	$ 75	$ 75			$ 2	$ 2		
Short-term investments - municipal debt securities					163	163		
Restricted cash and cash equivalents (c)	31	31			22	22		
Price risk management assets - energy commodities (d)	1		$ 1					
Total assets	$ 107	$ 106	$ 1		$ 187	$ 187		
Liabilities								
Price risk management liabilities:								
Energy commodities (e)	$ 1		$ 1		$ 2		$ 2	
Interest rate swaps (f)	57		57		34		34	
Total liabilities	$ 58		$ 58		$ 36		$ 36	
KU								
Assets								
Cash and cash equivalents	$ 94	$ 94			$ 3	$ 3		
Restricted cash and cash equivalents (c)					1	1		
Total assets	$ 94	$ 94			$ 4	$ 4		

(a) Current portion is included in "Restricted cash and cash equivalents" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(b) Included in "Other investments" on the Balance Sheets.
(c) Current portion is included in "Other current assets" on the Balance Sheets. Such amounts were insignificant at September 30, 2011 and December 31, 2010. The long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(d) Included in "Other current assets" on the Balance Sheets.
(e) Included in "Other current liabilities" on the Balance Sheets.
(f) Current portion is included in "Other current liabilities" on the Balance Sheets. The long-term portion is included in "Price risk management liabilities" on the Balance Sheets.

At September 30, 2011 and December 31, 2010, KU's price risk management assets and liabilities arising from energy commodities accounted for at fair value on a recurring basis were not significant.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended September 30, 2011 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Three Months				Nine Months			
	Energy Commodities, net	Auction Rate Securities	Cross-Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross-Currency Swaps	Total
PPL								
Balance at beginning of period	$ 26	$ 25		$ 51	$ (3)	$ 25		$ 22
Total realized/unrealized gains (losses)								
Included in earnings	6			6	2			2
Included in OCI (a)	2	(1)		1	6	(1)		5
Purchases					2			2
Sales					(4)			(4)
Settlements	(2)			(2)	23			23
Transfers into Level 3	(1)		$ 14	13	(1)		$ 14	13
Transfers out of Level 3	(5)			(5)	1			1
Balance at end of period	$ 26	$ 24	$ 14	$ 64	$ 26	$ 24	$ 14	$ 64

	Three Months				Nine Months			
	Energy Commodities, net	Auction Rate Securities	Cross-Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross-Currency Swaps	Total
PPL Energy Supply								
Balance at beginning of period	$ 26	$ 20		$ 46	$ (3)	$ 20		$ 17
Total realized/unrealized gains (losses)								
Included in earnings	6			6	2			2
Included in OCI (a)	2	(1)		1	6	(1)		5
Purchases					2			2
Sales					(4)			(4)
Settlements	(2)			(2)	23			23
Transfers into Level 3	(1)			(1)	(1)			(1)
Transfers out of Level 3	(5)			(5)	1			1
Balance at end of period	$ 26	$ 19		$ 45	$ 26	$ 19		$ 45

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

(a) "Energy Commodities" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended September 30, 2010 is as follows:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Three Months			Nine Months		
	Energy Commodities, net	Auction Rate Securities	Total	Energy Commodities, net	Auction Rate Securities	Total
PPL						
Balance at beginning of period	$ 48	$ 25	$ 73	$ 107	$ 25	$ 132
Total realized/unrealized gains (losses)						
Included in earnings	(58)		(58)	(126)		(126)
Included in OCI (a)	4		4	12		12
Net purchases, sales, issuances and settlements (b)	(13)		(13)	(12)		(12)
Transfers into Level 3	(13)		(13)	(15)		(15)
Transfers out of Level 3	46		46	48		48
Balance at end of period	$ 14	$ 25	$ 39	$ 14	$ 25	$ 39
PPL Energy Supply						
Balance at beginning of period	$ 48	$ 20	$ 68	$ 107	$ 20	$ 127
Total realized/unrealized gains (losses)						
Included in earnings	(58)		(58)	(126)		(126)
Included in OCI (a)	4		4	12		12
Net purchases, sales, issuances and settlements (b)	(13)		(13)	(12)		(12)
Transfers into Level 3	(13)		(13)	(15)		(15)
Transfers out of Level 3	46		46	48		48
Balance at end of period	$ 14	$ 20	$ 34	$ 14	$ 20	$ 34

(a) Included in "Qualifying derivatives" on the Statements of Comprehensive Income.
(b) Accounting guidance effective January 1, 2011 requires purchase, sale, issuance and settlement transactions within Level 3 to be presented on a gross basis. The transactions in 2010 are reported on a combined basis.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended September 30 is as follows:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Energy Commodities, net			
	Three Months		Nine Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
LKE				
Balance at beginning of period		$ 45		$ 75
Total realized/unrealized gains (losses)				
Included in discontinued operations		(1)		3
Settlements		(14)		(48)
Balance at end of period		$ 30		$ 30

Net gains and losses on assets and liabilities classified as Level 3 and included in earnings for the periods ended September 30 are reported in the Statements of Income as follows:

	Three Months							
	Energy Commodities, net							
	Unregulated Retail Electric and Gas		Wholesale Energy Marketing		Net Energy Trading Margins		Energy Purchases	
	2011	2010	2011	2010	2011	2010	2011	2010
PPL and PPL Energy Supply								
Total gains (losses) included in earnings	$ 6	$ 10	$ (1)	$ 3	$ 1	$ 1		$ (72)
Change in unrealized gains (losses) relating to positions still held at the reporting date	3	8		4	1		$ 1	(3)

	Nine Months							
	Energy Commodities, net							
	Unregulated Retail Electric and Gas		Wholesale Energy Marketing		Net Energy Trading Margins		Energy Purchases	
	2011	2010	2011	2010	2011	2010	2011	2010
PPL and PPL Energy Supply								
Total gains (losses) included in earnings	$ 11	$ 22	$ (5)	$ 16	$ (2)	$ (1)	$ (2)	$ (163)
Change in unrealized gains (losses) relating to positions still held at the reporting date	6	18	(6)	8	1		20	(5)

(*PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

PPL and its subsidiaries recognize transfers between levels at end-of-reporting-period values.

Price Risk Management Assets/Liabilities - Energy Commodities

Energy commodity contracts are generally valued using the income approach, except for exchange-traded derivative gas, oil and emission allowance contracts, which are valued using the market approach and are classified as Level 1. When observable inputs are used to measure all or most of the value of a contract, the contract is classified as Level 2. Over-the-counter (OTC) contracts are valued using quotes obtained from an exchange, binding and non-binding broker quotes, prices posted by ISOs or published tariff rates. Furthermore, PPL and its subsidiaries obtain independent quotes from the market to validate the forward price curves. OTC contracts include forwards, swaps, options and structured deals for electricity, gas, oil and/or emission allowances and may be offset with similar positions in exchange-traded markets. To the extent possible, fair value measurements utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. For example, the fair value of a structured deal that delivers power to an illiquid delivery point may be measured by valuing the nearest liquid trading point plus the value of the basis between the two points. The basis input may be from market quotes, FTR prices or historical prices.

When unobservable inputs are significant to the fair value measurement, a contract is classified as Level 3. Additionally, Level 2 and Level 3 fair value measurements include adjustments for credit risk based on PPL's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). PPL's credit department assesses all reasonably available market information and probabilities of default used to calculate the credit adjustment. PPL assumes that observable market prices include sufficient adjustments for liquidity and modeling risks, but for Level 3 fair value measurements, PPL also assesses the need for additional adjustments for liquidity or modeling risks. The contracts classified as Level 3 represent contracts for which delivery is at a location where pricing is unobservable, the delivery dates are beyond the dates for which independent prices are available or for certain power basis positions, which PPL generally values using historical settlement prices to project forward prices.

In certain instances, energy commodity contracts are transferred between Level 2 and Level 3. The primary reasons for the transfers during 2011 and 2010 were changes in the availability of market information and changes in the significance of the unobservable portion of the contract. As the delivery period of a contract becomes closer, market information may become available. When this occurs, the model's unobservable inputs are replaced with observable market information.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Exchange Contracts/Cross-Currency Swaps

To manage their interest rate risk, PPL and its subsidiaries generally use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage their foreign currency exchange risk, PPL and its subsidiaries generally use foreign currency exchange contracts such as forwards and options and cross-currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts. PPL and its subsidiaries use an income approach to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP and Euro), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, PPL and its subsidiaries cannot practicably obtain market information to value credit risk and therefore rely on their own models. These models use projected probabilities of default based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3. Certain cross-currency contracts were transferred to Level 3 due to the significance of the credit adjustment required at September 30, 2011, resulting from the longer average terms of these contracts.

NDT Funds *(PPL and PPL Energy Supply)*

PPL and PPL Energy Supply generally use the market approach to measure the fair value of equity securities held in the NDT funds.

- The fair value measurements of equity securities classified as Level 1 are based on quoted prices in active markets and are comprised of securities that are representative of the Wilshire 5000 index, which is invested in approximately 70% large-cap stocks and 30% mid/small-cap stocks.

- Investments in commingled equity funds are classified as Level 2 and represent securities that track the S&P 500 index and the Wilshire 4500 index. These fair value measurements are based on firm quotes of net asset values per share, which are not obtained from a quoted price in an active market.

Debt securities are generally measured using a market approach, including the use of matrix pricing. Common inputs include reported trades, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as benchmark yields, credit valuation adjustments, reference data from market research publications, monthly payment data, collateral performance and new issue data.

The debt securities held by the NDT funds at September 30, 2011 have a weighted-average coupon of 4.53% and a weighted-average duration of five years.

Auction Rate Securities *(PPL and PPL Energy Supply)*

PPL's and PPL Energy Supply's auction rate securities include Federal Family Education Loan Program guaranteed student loan revenue bonds, as well as various municipal bond issues. At September 30, 2011, contractual maturities for these auction rate securities were a weighted average of approximately 24 years. PPL and PPL Energy Supply do not have significant exposure to realize losses on these securities; however, auction rate securities are classified as Level 3 because failed auctions limit the amount of observable market data that is available for measuring the fair value of these securities.

The fair value of auction rate securities is estimated using an income approach with inputs for the underlying structure and credit quality of each security; the present value of future interest payments, estimated based on forward rates of the SIFMA Index, and principal payments discounted using interest rates for bonds with a credit rating and remaining term to maturity similar to the stated maturity of the auction rate securities; and the impact of auction failures or redemption at par.

Nonrecurring Fair Value Measurements

(PPL and PPL Energy Supply)

The following nonrecurring fair value measurements occurred during the reporting periods, resulting in asset impairments:

	Carrying Amount (a)	Fair Value Measurements Using Level 2	Level 3	Loss (b)
Sulfur dioxide emission allowances (c):				
September 30, 2011	$ 1			$ 1
March 31, 2011	1			1
September 30, 2010	6		$ 2	4
June 30, 2010	11		3	8
March 31, 2010	13		10	3
RECs (c):				
September 30, 2011	1			1
June 30, 2011	2	$ 1		1
March 31, 2011	3			3
Certain non-core generation facilities:				
September 30, 2010	473	381		96

(a) Represents carrying value before fair value measurement.
(b) Losses on sulfur dioxide emission allowances and RECs were recorded in the Supply segment and included in "Other operation and maintenance" on the Statements of Income. Losses on certain non-core generation facilities were recorded in the Supply segment and included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income.
(c) Current and long-term sulfur dioxide emission allowances and RECs are included in "Other intangibles" in their respective areas on the Balance Sheets.

Sulfur Dioxide Emission Allowances

Due to declines in market prices, PPL Energy Supply assessed the recoverability of sulfur dioxide emission allowances not expected to be consumed. When available, observable market prices were used to value the sulfur dioxide emission allowances. When observable market prices were not available, fair value was modeled using prices from observable transactions and appropriate discount rates. The modeled values were significant to the overall fair value measurement, resulting in the Level 3 classification.

RECs

Due to declines in forecasted full-requirement obligations in certain markets as well as declines in market prices, PPL Energy Supply assessed the recoverability of certain RECs not expected to be used. Observable market prices (Level 2) were used to value the RECs.

Certain Non-Core Generation Facilities

Certain non-core generation facilities met the held for sale criteria at September 30, 2010. As a result, net assets held for sale were written down to their estimated fair value less cost to sell. The fair value in the table above excludes estimated costs to sell and was based on the negotiated sales price (achieved through an active auction process). See Note 8 for additional information on the completed sale.

Financial Instruments Not Recorded at Fair Value *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

The carrying amounts of contract adjustment payments related to the 2010 Purchase Contract component of the 2010 Equity Units, the 2011 Purchase Contract component of the 2011 Equity Units, and long-term debt on the Balance Sheets and their estimated fair value are set forth below. The fair value of these instruments was estimated using an income approach by discounting future cash flows at estimated current cost of funding rates. The effect of third-party credit enhancements is not included in the fair value measurement.

	September 30, 2011 Carrying Amount	Fair Value	December 31, 2010 Carrying Amount	Fair Value
PPL				
Contract adjustment payments (a)	$ 220	$ 220	$ 146	$ 148
Long-term debt	18,177	19,369	12,663	12,868
PPL Energy Supply				
Long-term debt	3,025	3,416	5,589	5,919
PPL Electric				
Long-term debt	1,718	2,044	1,472	1,578
LKE				
Long-term debt	4,075	4,332	3,825	3,607
LG&E				
Long-term debt	1,112	1,166	1,112	1,069
KU				
Long-term debt	1,841	2,011	1,841	1,728

(a) Included in "Other current liabilities" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

The carrying value of short-term debt (including notes between affiliates), when outstanding, represents or approximates fair value due to the variable interest rates associated with the financial instruments. The carrying value of held-to-maturity, short-term investments approximates fair value due to the liquid nature and short-term duration of these instruments.

Credit Concentration Associated with Financial Instruments

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL and its subsidiaries enter into contracts with many entities for the purchase and sale of energy. Many of these contracts qualify for NPNS and as such, the fair value of these contracts is not reflected in the financial statements. However, the fair value of these contracts is considered when committing to new business from a credit perspective. See Note 14 for information on credit policies used by PPL and its subsidiaries to manage credit risk, including master netting arrangements and collateral requirements.

(PPL)

At September 30, 2011, PPL had credit exposure of $2.1 billion from energy trading partners, excluding the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, PPL's credit exposure was reduced to $766 million. One of the counterparties accounted for 15% of the exposure, and the next highest counterparty accounted for 12% of the exposure. Ten counterparties accounted for $519 million, or 68%, of the net exposure. As of September 30, 2011, all of these counterparties had investment grade credit ratings from S&P or Moody's; however, subsequent to September 30, 2011, the largest counterparty, with a long-term contract, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. At September 30, 2011, accounts receivable from this counterparty, net of collateral, was not significant.

(PPL Energy Supply)

At September 30, 2011, PPL Energy Supply had credit exposure of $2.1 billion from energy trading partners, excluding exposure from related parties and the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, this credit exposure was reduced to $763 million. One of these counterparties accounted for 16% of the exposure, and the next highest counterparty accounted for 12% of the exposure. Ten counterparties accounted for $519 million, or 68%, of the net exposure. As of September 30, 2011, all of these counterparties had investment grade credit ratings from S&P or Moody's; however, subsequent to September 30, 2011, the largest counterparty, with a long-term contract, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. At September 30, 2011, accounts receivable from this counterparty, net of collateral, was not significant.

(PPL Electric)

At September 30, 2011, PPL Electric had no credit exposure under energy supply contracts (including its supply contracts with PPL EnergyPlus).

(LKE, LG&E and KU)

At September 30, 2011, LKE's, LG&E's and KU's credit exposure was not significant.

14. Derivative Instruments and Hedging Activities

Risk Management Objectives

(PPL Energy Supply)

As described in Notes 1 and 8, in January 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. Therefore, effective January 2011, PPL Energy Supply is no longer subject to interest rate and foreign currency exchange risk associated with investments in U.K. affiliates.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL has a risk management policy approved by the Board of Directors to manage market risk and counterparty credit risk. The RMC, comprised of senior management and chaired by the Chief Risk Officer, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, VaR analyses, portfolio stress tests, gross margin at risk analyses, sensitivity analyses and daily portfolio reporting, including open positions, determinations of fair value and other risk management metrics. PPL completed its acquisitions of LKE in November 2010 and WPD Midlands in April 2011. During the second quarter of 2011, the RMC formally approved the inclusion of LKE's risk programs under the risk management policy. WPD Midlands adhered to the applicable risk management programs, including interest rate and foreign currency exchange programs, from the date of acquisition.

Market risk is the potential loss PPL and its subsidiaries may incur as a result of price changes associated with a particular financial or commodity instrument. PPL and its subsidiaries utilize forward contracts, futures contracts, options, swaps and structured deals such as tolling agreements as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, volumes of full-requirement sales contracts, basis prices, interest rates and/or foreign currency exchange rates. All derivatives are recognized on the Balance Sheets at their fair value, unless they qualify for NPNS.

PPL is exposed to market risk from foreign currency exchange risk associated with its investments in U.K. affiliates, as well as additional market risk from certain subsidiaries, as discussed below.

PPL and PPL Energy Supply are exposed to market risk from:

- commodity price, basis and volumetric risks for energy and energy-related products associated with the sale of electricity from its generating assets and other electricity marketing activities (including full-requirement sales contracts) and the purchase of fuel and fuel-related commodities for generating assets, as well as for proprietary trading activities;
- interest rate and price risk associated with debt used to finance operations, as well as debt and equity securities in NDT funds and defined benefit plans; and
- foreign currency exchange rate risk associated with purchases of equipment in currencies other than U.S. dollars.

PPL and PPL Electric are exposed to market and volumetric risks from PPL Electric's obligation as PLR. The PUC has approved a cost recovery mechanism that allows PPL Electric to pass through to customers the cost associated with fulfilling its PLR obligation. This cost recovery mechanism substantially eliminates PPL Electric's exposure to market risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement supply agreements for its customers. These supply agreements transfer the volumetric risk associated with the PLR obligation to the energy suppliers.

By definition, the regulatory environments for PPL's other regulated entities, LKE (through its subsidiaries LG&E and KU) and WPD, significantly mitigates market risk. LG&E's and KU's rates are set to permit the recovery of prudently incurred costs, including certain mechanisms for fuel, gas supply and environmental expenses. These mechanisms provide for timely recovery of market price and volumetric fluctuations associated with these expenses. LG&E and KU primarily utilize forward financial transactions to manage price risk associated with expected economic generation capacity in excess of expected load requirements. WPD does not have supply risks as it is only in the distribution business.

LG&E also utilizes over-the-counter interest rate swaps to limit exposure to market fluctuations on interest expense. WPD utilizes over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from foreign currency exchange rates.

Credit risk is the potential loss PPL and its subsidiaries may incur due to a counterparty's non-performance, including defaults on payments and energy commodity deliveries.

PPL is exposed to credit risk from interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

PPL and PPL Energy Supply are exposed to credit risk from commodity derivatives with their energy trading partners, which include other energy companies, fuel suppliers and financial institutions.

PPL and PPL Electric are exposed to credit risk from PPL Electric's supply agreements for its PLR obligation.

LKE and LG&E are exposed to credit risk from interest rate derivatives with financial institutions.

The majority of PPL's and its subsidiaries' credit risk stems from PPL subsidiaries' commodity derivatives for multi-year contracts for energy sales and purchases. If PPL Energy Supply's counterparties fail to perform their obligations under such contracts and PPL Energy Supply could not replace the sales or purchases at the same prices as those under the defaulted contracts, PPL Energy Supply would incur financial losses. Those losses would be recognized immediately or through lower revenues or higher costs in future years, depending on the accounting treatment for the defaulted contracts. In the event a supplier of LKE (through its subsidiaries LG&E and KU) or PPL Electric defaults on its obligation, those entities would be required to seek replacement power or replacement fuel in the market. In general, incremental costs incurred by these entities would be recoverable from customers in future rates.

PPL and its subsidiaries have credit policies to manage their credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request the additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade or their exposures exceed an established credit limit. See Note 13 for credit concentration associated with financial instruments.

Master Netting Arrangements

PPL and its subsidiaries have elected not to offset net derivative positions in the Financial Statements. Accordingly, PPL and its subsidiaries do not offset such derivative positions against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL's and PPL Energy Supply's obligation to return counterparty cash collateral under master netting arrangements was $64 million and $338 million at September 30, 2011 and December 31, 2010.

PPL Electric, LKE, LG&E and KU had no obligation to return cash collateral under master netting arrangements at September 30, 2011 and December 31, 2010.

PPL Energy Supply, PPL Electric and KU had not posted any cash collateral under master netting arrangements at September 30, 2011 and December 31, 2010.

PPL, LKE and LG&E had posted cash collateral under master netting arrangements of $30 million at September 30, 2011 and $19 million at December 31, 2010.

Commodity Price Risk (Non-trading)

(PPL and PPL Energy Supply)

Commodity price and basis risks are among PPL's and PPL Energy Supply's most significant risks due to the level of investment that PPL and PPL Energy Supply maintain in their competitive generation assets, as well as the extent of their marketing and proprietary trading activities. Several factors influence price levels and volatilities. These factors include, but are not limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation/transmission availability and reliability within and between regions, market liquidity, and the nature and extent of current and potential federal and state regulations.

PPL and PPL Energy Supply enter into financial and physical derivative contracts, including forwards, futures, swaps and options, to hedge the price risk associated with electricity, gas, oil and other commodities. Certain contracts qualify for NPNS or are non-derivatives and are therefore not reflected in the financial statements until delivery. PPL and PPL Energy Supply segregate their remaining non-trading activities into two categories: cash flow hedge activity and economic activity. In addition, the monetization of certain full-requirements sales contracts in 2010 impacted both the cash flow hedge and economic activity, as discussed below.

Monetization of Certain Full-Requirement Sales Contracts

In early July 2010, in order to raise additional cash for the LKE acquisition, PPL Energy Supply monetized certain full-requirement sales contracts that resulted in cash proceeds of $156 million.

The decision in late June 2010 to monetize these contracts triggered certain accounting for the second quarter of 2010:

- A portion of these sales contracts had previously been accounted for as NPNS and received accrual accounting treatment. The related purchases to supply these sales contracts were accounted for as cash flow hedges, with the effective portion of the change in fair value being recorded in AOCI and the ineffective portion recorded in "Energy purchases - Unrealized economic activity."

- The rest of the sales contracts, along with their related hedges, had previously been accounted for as economic activity by PPL Energy Supply and the change in fair value of the sales contracts was recorded in "Wholesale energy marketing - Unrealized economic activity" and the change in fair value of the purchase contracts was recorded in "Energy purchases - Unrealized economic activity" on the Statement of Income.

- At June 30, 2010, PPL Energy Supply could no longer assert that it was probable that any contracts with these counterparties would result in physical delivery. Therefore, the fair value of the NPNS contracts of $66 million was recorded on the Balance Sheet in "Price risk management assets," with a corresponding gain to "Wholesale energy marketing - Unrealized economic activity." Of this amount, $16 million was related to full-requirement sales contracts that had not been monetized. The corresponding cash flow hedges were dedesignated and all amounts previously recorded in AOCI were reclassified to earnings. This resulted in a pre-tax reclassification of $(87) million of gains (losses) from AOCI into "Energy purchases - Unrealized economic activity" on the Statement of Income. An additional charge of $(23) million was also recorded at June 30, 2010 in "Wholesale energy marketing - Unrealized economic activity" to reflect the fair value of the sales contracts previously accounted for as economic activity.

- The net result of these transactions, excluding the full-requirement sales contracts that have not been monetized, was a gain (loss) of $(60) million, or $(36) million after tax, for the second quarter of 2010.

In late July 2010, PPL Energy Supply again monetized certain full-requirement sales contracts that resulted in additional cash proceeds of $93 million. The monetization in late July triggered certain accounting that impacted the third quarter of 2010.

- These sales contracts had previously been accounted for as NPNS and received accrual accounting treatment. The related purchases to supply these sales contracts were accounted for as cash flow hedges, with the effective portion of the change in fair value being recorded in AOCI and the ineffective portion recorded in "Energy purchases - Unrealized economic activity" on the Statement of Income.

- The $93 million received from the monetization of the NPNS contracts was recorded as a gain to "Wholesale energy marketing - Realized" on the Statement of Income. The corresponding cash flow hedges were dedesignated and all amounts previously recorded in AOCI were reclassified to earnings. This resulted in a pre-tax reclassification of $(61) million of gains (losses) from AOCI into "Energy purchases - Unrealized economic activity" on the Statement of Income.

- The net result of these transactions was a gain of $32 million, or $19 million after tax, for the three months ended September 30, 2010.

The proceeds of $249 million from these monetizations are reflected in the Statement of Cash Flows as a component of "Net cash provided by operating activities."

Cash Flow Hedges

Many derivative contracts have qualified for hedge accounting so that the effective portion of a derivative's gain or loss is deferred in AOCI and reclassified into earnings when the forecasted transaction occurs. The cash flow hedges that existed at September 30, 2011 range in maturity through 2016. At September 30, 2011, the accumulated net unrecognized after-tax gains (losses) that are expected to be reclassified into earnings during the next 12 months were $309 million for PPL and PPL Energy Supply. Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedge transaction is probable of not occurring. For the three and nine months ended September 30, 2011, such reclassifications were insignificant. For the three and nine months ended September 30, 2010, such reclassifications were after tax (losses) of $(36) million and $(89) million. The after-tax (losses) recorded in both periods in 2010 were primarily due to the monetization of certain full-requirement sales contracts, for which the associated hedges were no longer required, as discussed above.

For the three and nine months ended September 30, 2011, hedge ineffectiveness associated with energy derivatives was, after-tax, a gain (loss) of $(3) million and $(17) million. For the three and nine months ended September 30, 2010, hedge ineffectiveness associated with energy derivatives was, after-tax, a gain (loss) of $8 million and $(16) million.

In addition, when cash flow hedge positions fail hedge effectiveness testing, hedge accounting is not permitted in the quarter in which this occurs and, accordingly, the entire change in fair value for the periods that failed is recorded to the Statement of Income. Certain power and gas cash flow hedge positions failed effectiveness testing during 2008 and early 2009 which resulted in significant gains recorded to the Statement of Income. However, these positions were not dedesignated as hedges, as prospective regression analysis demonstrated that these hedges were expected to be highly effective over their term.

During the first quarter of 2010, after-tax gains (losses) of $(82) million were recognized in earnings as a result of the reversals. Effective April 1, 2010, clarifying accounting guidance was issued that precludes the reversal of previously recognized gains/losses resulting from hedge failures. By the end of the first quarter of 2010, all previously recorded hedge ineffectiveness gains resulting from hedge failures had reversed; therefore, the clarifying accounting guidance did not have a significant impact on the results of operation for PPL or PPL Energy Supply.

Economic Activity

Certain derivative contracts economically hedge the price and volumetric risk associated with electricity, gas, oil and other commodities but do not receive hedge accounting treatment. These derivatives hedge a portion of the economic value of PPL's and PPL Energy Supply's competitive generation assets and unregulated full-requirement and retail contracts, which are subject to changes in fair value due to market price volatility and volume expectations. Additionally, economic activity includes the ineffective portion of qualifying cash flow hedges (see "Cash Flow Hedges" above). The derivative contracts in this category that existed at September 30, 2011 range in maturity through 2017.

Examples of economic activity include certain purchase contracts used to supply full-requirement sales contracts; FTRs or basis swaps used to hedge basis risk associated with the sale of competitive generation or supplying unregulated full-requirement sales contracts; spark spreads (sale of electricity with the simultaneous purchase of fuel); retail electric and gas activities; and fuel oil swaps used to hedge price escalation clauses in coal transportation and other fuel-related contracts. PPL Energy Supply also uses options, which include the sale of call options and the purchase of put options tied to a particular generating unit. Since the physical generating capacity is owned, the price exposure is limited to the cost of the particular generating unit and does not expose PPL Energy Supply to uncovered market price risk.

Activity associated with monetizing certain full-requirement sales contracts is also included in economic activity during the second quarter of 2010. All transactions that previously had been considered cash flow hedges related to these full-requirement sales contracts, but no longer qualified as cash flow hedges, were classified as economic activity at September 30, 2010.

The net fair value of economic positions at September 30, 2011 and December 31, 2010 was a net liability of $218 million and $389 million for PPL Energy Supply. The unrealized gains (losses) for economic activity for the periods ended September 30 are as follows.

	Three Months		Nine Months	
	2011	2010	2011	2010
Operating Revenues				
Unregulated retail electric and gas	$ 4	$ 8	$ 9	$ 16
Wholesale energy marketing	216	52	229	(190)
Operating Expenses				
Fuel	(28)	16	(16)	13
Energy purchases (a)	(176)	(300)	(49)	(418)

(a) During the second quarter of 2010, PPL Energy Supply corrected an error relating to the fair value of a capacity contract (classified as economic activity) due to the use of an incorrect forward capacity curve. PPL Energy Supply's energy purchases were understated for the year ended December 31, 2009 and the first quarter of 2010 by an unrealized amount of $35 million ($20 million after tax or $0.05 per share, basic and diluted, for PPL) and $5 million ($3 million after tax or $0.01 per share, basic and diluted, for PPL). Management concluded that the impacts were not material to first quarter 2010 financial statements of PPL and PPL Energy Supply, and were not material to the financial statements for the full year 2010.

The net gains (losses) recorded in "Wholesale energy marketing" resulted primarily from certain full-requirement sales contracts for which PPL Energy Supply did not elect NPNS, from hedge ineffectiveness, including hedges that failed effectiveness testing, as discussed in "Cash Flow Hedges" above, and from the monetization of certain full-requirement sales contracts. The net gains (losses) recorded in "Energy purchases" resulted primarily from certain purchase contracts to supply the full-requirement sales contracts noted above for which PPL Energy Supply did not elect hedge treatment, from hedge ineffectiveness, including hedges that failed effectiveness testing, and from purchase contracts that no longer hedge the full-requirement sales contracts that were monetized as discussed above in "Monetization of Certain Full-Requirement Sales Contracts."

(PPL, LKE, LG&E and KU)

LG&E and KU primarily utilize forward financial transactions to manage price risk associated with expected economic generation capacity in excess of expected load requirements. Hedge accounting treatment has not been elected for these transactions; therefore, realized and unrealized gains and losses are recorded in the Statements of Income. The derivative contracts in this category that existed at September 30, 2011, range in maturity through 2012.

The net fair value of economic positions for LKE, LG&E and KU at September 30, 2011 and December 31, 2010 was not significant. Unrealized gains (losses) for economic activity for LKE, LG&E and KU for the three and nine months ended September 30, 2011 and 2010 were not significant.

Commodity Price Risk (Trading) *(PPL and PPL Energy Supply)*

PPL Energy Supply also executes energy contracts to take advantage of market opportunities. As a result, PPL Energy Supply may at times create a net open position in its portfolio that could result in significant losses if prices do not move in the manner or direction anticipated. PPL Energy Supply's trading activity is shown in "Net energy trading margins" on the Statements of Income.

Commodity Volumetric Activity

(PPL and PPL Energy Supply)

PPL Energy Supply currently employs four primary strategies to maximize the value of its wholesale energy portfolio. As further discussed below, these strategies include the sales of baseload generation, optimization of intermediate and peaking generation, marketing activities, and proprietary trading activities. The tables within this section present the volumes of PPL Energy Supply's derivative activity, excluding those that qualify for NPNS, unless otherwise noted.

Sales of Baseload Generation

PPL Energy Supply has a formal hedging program for its competitive baseload generation fleet, which includes 7,357 MW of nuclear, coal and hydroelectric generating capacity. The objective of this program is to provide a reasonable level of near-term cash flow and earnings certainty while preserving upside potential of power price increases over the medium term. PPL Energy Supply sells its expected generation output on a forward basis using both derivative and non-derivative instruments. Both are included in the following tables.

The following table presents the expected sales, in GWh, from baseload generation and tolling arrangements that are included in the baseload portfolio based on current forecasted assumptions for 2011-2013. These expected sales could be impacted by several factors, including plant availability.

2011 (a)	2012	2013
13,575	54,675	54,364

(a) Represents expected sales for the balance of the current year.

The following table presents the percentage of expected baseload generation sales shown above that has been sold forward under fixed price contracts and the related percentage of fuel that has been purchased or committed at September 30, 2011.

			Fuel Purchases (c)	
Year	Derivative Sales (a)	Total Power Sales (b)	Coal	Nuclear
2011 (d)	90%	100%	100%	100%
2012	92%	91%	96%	100%
2013 (e)	63%	72%	89%	100%

(a) Excludes non-derivative contracts and contracts that qualify for NPNS. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.
(b) Amount represents derivative and non-derivative contracts. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option. Percentages are based on fixed-price contracts only.
(c) Coal and nuclear contracts receive accrual accounting treatment, as they are not derivative contracts. Percentages are based on both fixed- and variable-priced contracts.
(d) Represents the balance of the current year.
(e) Volumes for derivative sales contracts that deliver in future periods total 3,050 GWh.

In addition to the fuel purchases above, PPL Energy Supply attempts to economically hedge the fuel price risk that is within its fuel-related and coal transportation contracts, which are tied to changes in crude oil or diesel prices. PPL Energy Supply has also entered into contracts to financially hedge the physical sale of oil. The following table presents the net volumes (in thousands of barrels) of derivative (sales)/purchase contracts used in support of these strategies at September 30, 2011.

	2011 (a)	2012	2013 (b)
Oil Swaps	(21)	651	540

(a) Represents the balance of the current year.
(b) Volumes (in thousands of barrels) for derivative contracts used in support of this strategy that deliver in future periods total 120.

Optimization of Intermediate and Peaking Generation

In addition to its competitive baseload generation activities, PPL Energy Supply attempts to optimize the overall value of its competitive intermediate and peaking fleet, which includes 3,395 MW of gas and oil-fired generation. The following table presents the net volumes of derivative (sales)/purchase contracts used in support of this strategy at September 30, 2011.

	Units	2011 (a)	2012	2013 (b)
Power Sales (c)	GWh	(1,127)	(2,006)	(1,224)
Fuel Purchases (c)	Bcf	12.0	13.5	8.2

(a) Represents the balance of the current year.
(b) Volumes for derivative contracts used in support of these strategies that deliver in future periods total (1,632) GWh and 11.0 Bcf.
(c) Included in these volumes are non-options and exercised option contracts that converted to non-option derivative contracts. Volumes associated with option contracts are not significant.

Marketing Activities

PPL Energy Supply's marketing portfolio is comprised of full-requirement sales contracts and their related supply contracts, retail gas and electricity sales contracts and other marketing activities. The full-requirement sales contracts and their related supply contracts make up a significant component of the marketing portfolio. The obligations under the full-requirement sales contracts include supplying a bundled product of energy, capacity, RECs, and other ancillary products. The full-requirement sales contracts PPL Energy Supply is awarded do not provide for specific levels of load, and actual load could vary significantly from forecasted amounts. PPL Energy Supply uses a variety of strategies to hedge its full-requirement sales contracts, including purchasing energy at a liquid trading hub or directly at the load delivery zone, purchasing capacity and RECs in the market and supplying the energy, capacity and RECs with its generation. PPL Energy Supply does not consider RECs to be derivatives; therefore, they are excluded from the table below. The following table presents the volume of (sales)/purchase contracts, excluding FTRs, basis and capacity contracts, used in support of these activities at September 30, 2011.

	Units	2011 (a)	2012	2013
Energy sales contracts (b)	GWh	(4,319)	(13,074)	(5,325)
Related energy supply contracts (b)				
Energy purchases	GWh	2,923	7,425	645
Volumetric hedges (c)	GWh	90	312	43
Generation supply	GWh	1,265	5,457	4,478
Retail gas sales contracts	Bcf	(2.6)	(9.1)	(0.5)
Retail gas purchase contracts	Bcf	2.5	9.1	0.5

(a) Represents the balance of the current year.
(b) Includes NPNS and contracts that are not derivatives, which receive accrual accounting.
(c) PPL Energy Supply uses power and gas options, swaps and futures to hedge the volumetric risk associated with full-requirement sales contracts since the demand for power varies hourly. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.

Proprietary Trading Activity

At September 30, 2011, PPL Energy Supply's proprietary trading positions, excluding FTR, basis and capacity contract activity that is included in the tables below, were not significant.

Other Energy-Related Positions

FTRs and Other Basis Positions

PPL Energy Supply buys and sells FTRs and other basis positions to mitigate the basis risk between delivery points related to the sales of its generation, the supply of its full-requirement sales contracts and retail contracts, as well as for proprietary trading purposes. The net volume of derivative FTR and basis (sales)/purchase contracts at September 30, 2011 were:

	Units	2011 (a)	2012	2013 (b)
FTRs	GWh	9,720	15,008	
Power Basis Positions	GWh	(4,022)	(10,828)	(987)
Gas Basis Positions	Bcf	7.7	12.9	(1.0)

(a) Represents the balance of the current year.
(b) Volumes that deliver in future periods are 364 GWh and (2.0) Bcf.

Capacity Positions

PPL Energy Supply buys and sells capacity related to the sales of its generation and the supply of its full-requirement sales contracts. These contracts qualify for NPNS and receive accrual accounting. PPL Energy Supply also sells and purchases capacity for proprietary trading purposes. These contracts are marked to fair value through earnings. The following table presents the net volumes of derivative capacity (sales)/purchase contracts at September 30, 2011.

	Units	2011 (a)	2012	2013 (b)
Capacity	MW-months	(2,944)	(6,422)	(1,384)

(a) Represents the balance of the current year.
(b) Volumes that deliver in future periods are (253) MW-months.

Sales of Excess Regulated Generation (PPL, LKE, LG&E and KU)

LKE and its subsidiaries manage the price risk of expected economic generation capacity in excess of expected load requirements using market-traded forward contracts. At September 30, 2011, the net volume of electricity based financial derivatives outstanding to hedge excess regulated generation was insignificant for LKE, LG&E and KU.

Interest Rate Risk

Cash Flow Hedges *(PPL and PPL Energy Supply)*

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. PPL enters into financial interest rate swap contracts to hedge these exposures. These interest rate swap contracts mature through 2022 and had a notional value of $550 million at September 30, 2011.

Through PPL, PPL WEM holds a notional position in cross-currency interest rate swaps totaling $960 million that mature through 2021 to hedge the interest payments and principal of the U.S. dollar-denominated senior notes issued by PPL WEM in April 2011. Additionally, PPL WW holds a notional position in cross-currency interest rate swaps totaling $302 million that mature through December 2028 to hedge the interest payments and principal of its U.S. dollar-denominated senior notes. In 2010, these PPL WW swaps were part of PPL Energy Supply's business. As a result of the distribution of PPL Energy Supply's membership interest in PPL Global to PPL Energy Funding effective January 2011, these swaps are no longer part of PPL Energy Supply's business.

For the three and nine months ended September 30, 2011, hedge ineffectiveness associated with interest rate derivatives was insignificant and a gain (loss) of $(13) million for PPL, of which a gain (loss) of $(5) million was attributable to certain interest rate swaps that failed hedge effectiveness testing during the second quarter of 2011. For the three and nine months ended September 30, 2010, hedge ineffectiveness associated with interest rate derivatives was insignificant for both PPL and PPL Energy Supply.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is probable of not occurring. PPL and PPL Energy Supply had no such reclassifications for the three and nine months ended September 30, 2011. As a result of the expected net proceeds from the then anticipated sale of certain non-core generation facilities, coupled with the monetization of certain full-requirement sales contracts, debt that had been planned to be issued by PPL Energy Supply in 2010 was no longer needed. As a result, hedge accounting associated with interest rate swaps entered into by PPL in anticipation of a debt issuance by PPL Energy Supply was discontinued. Net gains (losses) of $(29) million, or $(19) million after tax, were reclassified for the three and nine months ended September 30, 2010. PPL Energy Supply had no such reclassifications for the three and nine months ended September 30, 2010.

At September 30, 2011, the accumulated net unrecognized after-tax gains (losses) on qualifying derivatives that are expected to be reclassified into earnings during the next 12 months were $(11) million for PPL. Amounts are reclassified as the hedged interest payments are made.

Fair Value Hedges *(PPL and PPL Energy Supply)*

PPL and PPL Energy Supply are exposed to changes in the fair value of their debt portfolios. To manage this risk, PPL and PPL Energy Supply may enter into financial contracts to hedge fluctuations in the fair value of existing debt issuances due to changes in benchmark interest rates. At September 30, 2011, PPL held contracts that range in maturity through 2047 and had a notional value of $99 million. PPL Energy Supply did not hold any such contracts at September 30, 2011. PPL and PPL Energy Supply did not recognize gains or losses resulting from the ineffective portion of fair value hedges or from a portion of the hedging instrument being excluded from the assessment of hedge effectiveness for the three and nine months ended September 30, 2011 and 2010.

PPL Electric redeemed $400 million of 7.125% Senior Secured Bonds due 2013. As a result of this redemption, PPL recorded a gain (loss) of $22 million, or $14 million after tax, for the three and nine months ended September 30, 2011 in "Other Income (Expense) - net" on the Statement of Income as a result of accelerated amortization of the fair value adjustments to the debt in connection with previously settled fair value hedges. PPL had no such gains or losses for the three and nine months ended September 30, 2010. PPL Energy Supply had no such gains or losses for the three and nine months ended September 30, 2011 and 2010.

Economic Activity

(PPL, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Beginning in the third quarter of 2010, as a result of a rate case order, realized gains and losses from the swaps are recoverable through regulated rates. Therefore, any subsequent change in fair value of these derivatives is included in regulatory assets and liabilities. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income when the hedged transaction occurs. Prior to the third quarter of 2010, LG&E reclassified amounts previously recorded in AOCI to earnings in the same period during which the forecasted transaction affected earnings. The amounts recorded to regulatory assets for the three and nine months ended September 30, 2011 were $22 million and $23 million. At September 30, 2011, LG&E held contracts with a notional amount of $179 million that range in maturity through 2033. The fair value of these contracts was a liability of $57 million and $34 million at September 30, 2011 and December 31, 2010.

(LKE and LG&E)

The amounts recorded to regulatory assets for the three and nine months ended September 30, 2010 were $59 million.

Foreign Currency Risk

(PPL)

Cash Flow Hedges

At September 30, 2011, there were no existing foreign currency cash flow hedges associated with foreign currency-denominated debt or firm commitments (including those for the purchase of equipment) denominated in foreign currencies. Amounts previously settled and recorded in AOCI are reclassified as the hedged interest payments are made and as the related equipment is depreciated. Insignificant gains are expected to be reclassified into earnings during the next 12 months.

During the three and nine months ended September 30, 2011 and 2010, no cash flow hedges were discontinued because it was probable that the original forecasted transaction would not occur by the end of the originally specified time periods.

Fair Value Hedges

PPL enters into foreign currency forward contracts to hedge the exchange rates associated with firm commitments denominated in foreign currencies; however, at September 30, 2011, there were no existing contracts of this nature and no gains or losses recorded during the three and nine months ended September 30, 2011 and 2010 related to hedge ineffectiveness, or from a portion of the hedging instrument being excluded from the assessment of hedge ineffectiveness, or from hedges of firm commitments that no longer qualified as fair value hedges.

Net Investment Hedges *(PPL and PPL Energy Supply)*

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. In 2010, these contracts were included in PPL Energy Supply's business. As a result of the distribution of PPL Energy Supply's membership interest in PPL Global to PPL Energy Funding, effective January 2011, these contracts are no longer included in PPL Energy Supply's business.

The contracts outstanding at September 30, 2011 had an aggregate notional amount of £65 million (approximately $106 million based on contracted rates). The settlement dates of these contracts range from January 2012 through June 2012. At September 30, 2011, the fair value of these contracts was $5 million. For the three and nine months ended September 30, 2011, PPL recognized insignificant amounts of activity in the foreign currency translation adjustment component of AOCI. For the three and nine months ended September 30, 2010, PPL and PPL Energy Supply recognized insignificant amounts of activity in the foreign currency translation adjustment component of AOCI. At September 30, 2011, PPL included $18 million of accumulated net investment hedge gains (losses), after tax, in the foreign currency translation adjustment component of AOCI. At December 31, 2010, PPL and PPL Energy Supply included $15 million of accumulated net investment hedge gains (losses), after-tax, in AOCI.

Economic Activity

(PPL)

In anticipation of the repayment of a portion of the GBP-denominated borrowings under the 2011 Bridge Facility with U.S. dollar proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of U.S. dollar-denominated senior notes, as discussed in Note 7, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. These trades were settled in April 2011. Gains and losses on these contracts are included in "Other Income (Expense) - net" on the Statement of Income. PPL recorded insignificant losses and $55 million of pre-tax, net gains (losses) for the three and nine months ended September 30, 2011.

(PPL and PPL Energy Supply)

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge anticipated earnings denominated in GBP. In 2010, these contracts were included in PPL Energy Supply's business. As a result of the distribution of PPL Energy Supply's membership interest in PPL Global to PPL Energy Funding, effective January 2011, these contracts are no longer included in PPL Energy Supply's business. At September 30, 2011, the total exposure hedged by PPL was £393 million, the net fair value of these positions was $16 million and these contracts had termination dates ranging from October 2011 through November 2012. PPL records gains (losses) on these contracts in "Other Income (Expense) - net" on the Statements of Income. Gains (losses) were $11 million for both the three and nine months ended September 30, 2011 and insignificant for 2010. PPL Energy Supply's 2010 gains (losses), both realized and unrealized, are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statement of Income and were insignificant for the three and nine months ended September 30, 2010.

Accounting and Reporting

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

All derivative instruments are recorded at fair value on the Balance Sheets as an asset or liability unless they qualify for NPNS. NPNS contracts for PPL and PPL Energy Supply include full-requirement sales contracts, power purchase agreements and certain retail energy and physical capacity contracts, and for PPL Electric include full-requirement purchase contracts and block purchase contracts. Changes in the derivatives' fair value are recognized currently in earnings unless specific hedge accounting criteria are met, except for the change in fair value of LG&E's interest rate swaps which is recognized as a regulatory asset. See Note 6 for amounts recorded in regulatory assets at September 30, 2011 and December 31, 2010.

See Notes 1 and 19 in PPL and PPL Electric's 2010 Form 10-K, Notes 1 and 15 in PPL Energy Supply's Form 8-K dated June 24, 2011 and Notes 1 and 5 in the annual financial statements included in LKE's, LG&E's and KU's 2011 Registration Statements for additional information on accounting policies related to derivative instruments.

(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	September 30, 2011				December 31, 2010			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management Assets/Liabilities (b):								
Interest rate swaps	$ 5	$ 63		$ 4	$ 11	$ 19		$ 2
Cross-currency swaps		2			7	9		
Foreign currency exchange contracts	5		$ 16		7		$ 4	
Commodity contracts	667	2	700	734	878	19	1,011	1,095
Total current	677	67	716	738	903	47	1,015	1,097
Noncurrent:								
Price Risk Management Assets/Liabilities (b):								
Interest rate swaps				53	4			32
Cross-currency swaps	51				37			
Commodity contracts	152	16	523	439	169	7	445	431
Total noncurrent	203	16	523	492	210	7	445	463
Total derivatives	$ 880	$ 83	$ 1,239	$ 1,230	$ 1,113	$ 54	$ 1,460	$ 1,560

(a) $261 million and $326 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at September 30, 2011 and December 31, 2010.
(b) Represents the location on the Balance Sheet.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $491 million and $695 million at September 30, 2011 and December 31, 2010. The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $921 million and $602 million at September 30, 2010 and December 31, 2009.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets for the periods ended September 30, 2011.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative		Gain (Loss) Recognized in Income on Related Item	
			Three Months	Nine Months	Three Months	Nine Months
Interest rate swaps	Fixed rate debt	Interest expense		$ 2	$ 5	$ 23
		Other income (expense) - net			22	22

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) Three Months	Nine Months	Location of Gain (Loss) Recognized in Income	Three Months: Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Three Months: Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Nine Months: Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Nine Months: Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	$ (52)	$ (51)	Interest expense	$ (4)		$ (10)	$ (13)
Cross-currency swaps	46	13	Interest expense			3	
			Other income (expense) - net	32		49	
Commodity contracts	66	116	Wholesale energy marketing	163	$ (9)	530	(31)
			Fuel	1		1	
			Depreciation	1		1	
			Energy purchases	(42)		(159)	1
Total	$ 60	$ 78		$ 151	$ (9)	$ 415	$ (43)
Net Investment Hedges:							
Foreign exchange contracts	$ 5	$ 4					

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months
Foreign exchange contracts	Other income (expense) - net	$ 11	$ 66
Interest rate swaps	Interest expense	(2)	(6)
Commodity contracts	Utility	1	(2)
	Unregulated retail electric and gas	6	11
	Wholesale energy marketing	193	167
	Net energy trading margins (a)	(2)	9
	Fuel	(27)	(12)
	Energy purchases	(192)	(156)
	Total	$ (12)	$ 77

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Nine Months
Interest rate swaps	Regulatory assets - noncurrent	$ (22)	$ (23)

(a) Differs from the Statement of Income due to intra-month transactions that PPL defines as spot activity, which is not accounted for as a derivative.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the periods ended September 30, 2010.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative: Three Months	Nine Months	Gain (Loss) Recognized in Income on Related Item: Three Months	Nine Months
Interest rate swaps	Fixed rate debt	Interest expense	$ 12	$ 46	$ (1)	$ (14)

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	$ (124)	$ (225)	Interest expense	$ (1)		$ (2)	$ (3)
			Other income (expense) - net	(30)		(30)	
Cross-currency swaps	(6)	40	Interest expense	1		2	
			Other income (expense) - net	(19)		19	
Commodity contracts	360	789	Wholesale energy marketing	93	$ (8)	469	(173)
			Fuel	1		2	
			Depreciation	1		2	
			Energy purchases	(87)	20	(398)	2
Total	$ 230	$ 604		$ (41)	$ 12	$ 64	$ (174)
Net Investment Hedges:							
Foreign exchange contracts	$ (1)	$ 4					

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months
Foreign exchange contracts	Other income (expense) - net	$ (1)	$ 1
Commodity contracts	Unregulated retail electric and gas	10	22
	Wholesale energy marketing	61	384
	Net energy trading margins (a)	(11)	
	Fuel	10	(2)
	Energy purchases	(378)	(873)
	Total	$ (309)	$ (468)

(a) Differs from the Statement of Income due to intra-month transactions that PPL defines as spot activity, which is not accounted for as a derivative.

(PPL Energy Supply)

See Note 8 for information on PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding. The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	September 30, 2011				December 31, 2010			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management Assets/Liabilities (b):								
Cross-currency swaps					$ 7	$ 9		
Foreign currency exchange contracts					7		$ 4	
Commodity contracts	$ 667	$ 2	$ 699	$ 733	878	19	1,011	$ 1,084
Total current	667	2	699	733	892	28	1,015	1,084
Noncurrent:								
Price Risk Management Assets/Liabilities (b):								
Cross-currency swaps					37			
Commodity contracts	152	16	523	439	169	7	445	431
Total noncurrent	152	16	523	439	206	7	445	431
Total derivatives	$ 819	$ 18	$ 1,222	$ 1,172	$ 1,098	$ 35	$ 1,460	$ 1,515

(a) $261 million and $326 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at September 30, 2011 and December 31, 2010.

(b) Represents the location on the balance sheet.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $539 million and $733 million at September 30, 2011 and December 31, 2010. At September 30, 2011, AOCI reflects the effect of PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 8 for additional information. The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $1.0 billion and $573 million at September 30, 2010 and December 31, 2009.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the periods ended September 30, 2011.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative		Gain (Loss) Recognized in Income on Related Item	
			Three Months	Nine Months	Three Months	Nine Months
Interest rate swaps	Fixed rate debt	Interest expense				$ 1

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gains (Losses) Recognized in Income	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Commodity contracts	$ 66	$ 116	Wholesale energy marketing	$ 163	$ (9)	$ 530	$ (31)
			Fuel	1		1	
			Depreciation	1		1	
			Energy purchases	(42)		(159)	1
Total	$ 66	$ 116		$ 123	$ (9)	$ 373	$ (30)

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months
Commodity contracts	Unregulated retail electric and gas	$ 6	$ 11
	Wholesale energy marketing	193	167
	Net energy trading margins (a)	(2)	9
	Fuel	(27)	(12)
	Energy purchases	(192)	(156)
	Total	$ (22)	$ 19

(a) Differs from the Statement of Income due to intra-month transactions that PPL Energy Supply defines as spot activity, which is not accounted for as a derivative.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the periods ended September 30, 2010.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative		Gain (Loss) Recognized in Income on Related Item	
			Three Months	Nine Months	Three Months	Nine Months
Interest rate swaps	Fixed rate debt	Interest expense			$ 1	$ 1

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gains (Losses) Recognized in Income	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps			Discontinued operations				$ (3)
Cross-currency swaps	$ (6)	$ 40	Discontinued operations	$ (18)		$ 21	
Commodity contracts	$ 360	789	Wholesale energy marketing	93	$ (8)	469	(173)
			Fuel	1		2	
			Depreciation			1	
			Energy purchases	(87)	20	(398)	2
Total	$ 354	$ 829		$ (11)	$ 12	$ 95	$ (174)
Net Investment Hedges:							
Foreign exchange contracts	$ (1)	$ 4					

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months
Foreign exchange contracts	Discontinued operations	$ (1)	$ 1
Commodity contracts	Unregulated retail electric and gas	10	22
	Wholesale energy marketing	61	384
	Net energy trading margins (a)	(11)	
	Fuel	10	(2)
	Energy purchases	(378)	(873)
	Total	$ (309)	$ (468)

(a) Differs from the Statement of Income due to intra-month transactions that PPL Energy Supply defines as spot activity, which is not accounted for as a derivative.

(LKE and LG&E)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	September 30, 2011				December 31, 2010			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Other Current Assets/Liabilities (a):								
Interest rate swaps				$ 4				$ 2
Commodity contracts			$ 1	1				2
Total current			1	5				4
Noncurrent:								
Price Risk Management Assets/Liabilities (a):								
Interest rate swaps				53				32
Total noncurrent				53				32
Total derivatives			$ 1	$ 58				$ 36

(a) Represents the location on the Balance Sheet.

There were no after-tax balances of accumulated net gains (losses) in AOCI at September 30, 2011, December 31, 2010 and September 30, 2010. The after-tax balance of accumulated net gains in AOCI was $5 million at December 31, 2009.

The following tables present the pre-tax effect of derivative instruments recognized in income or regulatory assets for the periods ended September 30, 2011, for the successor.

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months
Interest rate swaps	Interest expense	$ (2)	$ (6)
Commodity contracts	Operating revenues - retail and wholesale	1	(2)
	Total	$ (1)	$ (8)

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Nine Months
Interest rate swaps	Regulatory assets	$ (22)	$ (23)

The following tables present the pre-tax effect of derivative instruments recognized in income or regulatory assets for the periods ended September 30, 2010, for the predecessor.

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months
Interest rate swaps	Other income (expense) - net	$ 29	$ 19
Commodity contracts	Operating revenues - retail and wholesale		3
	Total	$ 29	$ 22

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Nine Months
Interest rate swaps	Regulatory assets	$ (59)	$ (59)

The gains and losses recognized in income on derivatives associated with commodity contracts for the three-month period ended September 30, 2010 were not significant.

During the nine months ended September 30, 2010, LG&E recorded a pre-tax gain to reverse previously recorded losses of $21 million and $9 million to reflect the reclassification of the ineffective swaps and the terminated swap to a regulatory asset.

The gain on hedging interest rate swaps recognized in OCI for the three and nine months ended September 30, 2010, was $21 million and $17 million. For the three and nine months ended September 30, 2010, the gain on derivatives reclassified from AOCI to regulatory assets was $23 million.

Prior to including the unrealized gains and losses on the effective and ineffective interest rate swaps in regulatory assets, amounts previously recorded in AOCI were reclassified into earnings in the same period during which the hedged forecasted transaction affected earnings. The amount amortized from OCI to income in the three and nine months ended September 30, 2010 was not significant.

(KU)

The gains and losses recognized in income on derivatives associated with commodity contracts were not significant for the three and nine months ended September 30, 2011 and 2010.

Credit Risk-Related Contingent Features *(PPL, PPL Energy Supply, LKE and LG&E)*

Certain of PPL's, PPL Energy Supply's, LKE's and LG&E's derivative contracts contain credit contingent provisions which would permit the counterparties with which PPL, PPL Energy Supply, LKE or LG&E is in a net liability position to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, PPL Energy Supply, LKE, LG&E, or certain of their subsidiaries. Most of these provisions would require PPL, PPL Energy Supply, LKE or LG&E to transfer additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these provisions also would allow the counterparty to require additional collateral upon each decrease in the credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade (i.e., below BBB- for S&P or Fitch, or Baa3 for Moody's), and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent provisions require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization by PPL, PPL Energy Supply, LKE or LG&E on derivative instruments in net liability positions.

Additionally, certain of PPL's, PPL Energy Supply's, LKE's and LG&E's derivative contracts contain credit contingent provisions that require PPL, PPL Energy Supply, LKE or LG&E to provide "adequate assurance" of performance if the other party has reasonable grounds for insecurity regarding PPL's, PPL Energy Supply's, LKE's or LG&E's performance of its obligation under the contract. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" provisions.

At September 30, 2011, the effect of a decrease in credit ratings below investment grade on derivative contracts that contain credit contingent features and were in a net liability position is summarized as follows:

	PPL	PPL Energy Supply	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit contingent provisions	$ 103	$ 51	$ 37	$ 37
Aggregate fair value of collateral posted on these derivative instruments	45	15	30	30
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	191	167	9	9

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

15 . Goodwill

(PPL and PPL Energy Supply)

The changes in the carrying amounts of goodwill by segment were as follows.

	Kentucky Regulated	International Regulated	Supply	Total
PPL				
Balance at December 31, 2010 (a)	$ 662	$ 679	$ 420 (d)	$ 1,761
Goodwill recognized during the period (b)		2,366		2,366
Effect of foreign currency exchange rates		69		69
Balance at September 30, 2011 (a)	$ 662	$ 3,114	$ 420	$ 4,196

	International Regulated	Supply	Total
PPL Energy Supply			
Balance at December 31, 2010 (a)	$ 679	$ 86	$ 765
Derecognition (c)	(679)		(679)
Balance at September 30, 2011 (a)	$	$ 86	$ 86

(a) There were no accumulated impairment losses related to goodwill.
(b) Recognized as a result of the 2011 acquisition of WPD Midlands. See Note 8 for additional information.
(c) Represents the amount of goodwill derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 8 for additional information on the distribution. Subsequent to the distribution, PPL Energy Supply operates in a single business operating segment and reporting unit.
(d) Includes goodwill attributed to the Supply segment as a result of the 2010 acquisition of LKE.

16 . Asset Retirement Obligations

(PPL, LKE, LG&E and KU)

Accretion expense recorded by LG&E and KU is offset with a regulatory credit and related regulatory asset, such that there is no income statement impact.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

The changes in the carrying amounts of AROs were as follows.

	PPL	PPL Energy Supply	LKE	LG&E	KU
ARO at December 31, 2010	$ 448	$ 345	$ 103	$ 49	$ 54
Accretion expense	25	20	4	2	2
Obligations assumed in acquisition of WPD Midlands (a)	15				
Derecognition (b)		(5)			
Obligations incurred	11	11			
Changes in estimated cash flow or settlement date	3	(4)	7	4	3
Obligations settled	(13)	(13)			
ARO at September 30, 2011	$ 489	$ 354	$ 114	$ 55	$ 59

(a) Obligations required under U.K. law related to treated wood poles, gas-filled switchgear and fluid-filled cables. See Note 8 for additional information on the acquisition.
(b) Represents AROs derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 8 for additional information on the distribution.

The classification of AROs on the Balance Sheet was as follows.

	September 30, 2011				
	PPL	PPL Energy Supply	LKE	LG&E	KU
Current portion (a)	$ 10	$ 9	$ 1	$ 1	
Long-term portion (b)	479	345	113	54	$ 59
Total	$ 489	$ 354	$ 114	$ 55	$ 59

	December 31, 2010				
	PPL	PPL Energy Supply	LKE	LG&E	KU
Current portion (a)	$ 13	$ 13			
Long-term portion (b)	435	332	$ 103	$ 49	$ 54
Total	$ 448	$ 345	$ 103	$ 49	$ 54

(a) Included in "Other current liabilities."
(b) Included in "Asset retirement obligations."

(PPL and PPL Energy Supply)

The most significant ARO recorded by PPL and PPL Energy Supply relates to the decommissioning of the Susquehanna nuclear plant. The accrued nuclear decommissioning obligation was $287 million and $270 million at September 30, 2011 and December 31, 2010, and is included in "Asset retirement obligations" on the Balance Sheets.

Assets in the NDT funds are legally restricted for purposes of settling PPL's and PPL Energy Supply's ARO related to the decommissioning of the Susquehanna nuclear plant. The aggregate fair value of these assets was $594 million and $618 million at September 30, 2011 and December 31, 2010, and is included in "Nuclear plant decommissioning trust funds" on the Balance Sheets. See Notes 13 and 17 for additional information on these assets.

17. Available-for-Sale Securities

(PPL, PPL Energy Supply, LKE and LG&E)

PPL and its subsidiaries classify certain short-term investments, securities held by the NDT funds and auction rate securities as available-for-sale. Available-for-sale securities are carried on the Balance Sheets at fair value. Unrealized gains and losses on these securities are reported, net of tax, in OCI or are recognized currently in earnings when a decline in fair value is determined to be other-than-temporary. The specific identification method is used to calculate realized gains and losses.

The following table shows the amortized cost, the gross unrealized gains and losses recorded in AOCI, and the fair value of available-for-sale securities.

	September 30, 2011				December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
PPL								
Short-term investments								
- municipal debt securities					$ 163			$ 163
NDT funds:								
Cash and cash equivalents	$ 13			$ 13	10			10
Equity securities:								
U.S. large-cap	170	$ 90		260	180	$ 123		303
U.S. mid/small-cap	67	37		104	67	52		119
Debt securities:								
U.S. Treasury	72	10		82	71	4		75
U.S. government sponsored agency	10	1		11	6	1		7
Municipality	79	4	$ 1	82	69			69
Investment-grade corporate	34	3		37	31	2		33
Other	3			3	1			1
Receivables/payables, net	2			2	1			1
Total NDT funds	450	145	1	594	436	182		618
Auction rate securities	25		1	24	25			25
Total	$ 475	$ 145	$ 2	$ 618	$ 624	$ 182		$ 806
PPL Energy Supply								
NDT funds:								
Cash and cash equivalents	$ 13			$ 13	$ 10			$ 10
Equity securities:								
U.S. large-cap	170	$ 90		260	180	$ 123		303
U.S. mid/small-cap	67	37		104	67	52		119
Debt securities:								
U.S. Treasury	72	10		82	71	4		75
U.S. government sponsored agency	10	1		11	6	1		7
Municipality	79	4	$ 1	82	69			69
Investment-grade corporate	34	3		37	31	2		33
Other	3			3	1			1
Receivables/payables, net	2			2	1			1
Total NDT funds	450	145	1	594	436	182		618
Auction rate securities	20		1	19	20			20
Total	$ 470	$ 145	$ 2	$ 613	$ 456	$ 182		$ 638
LKE and LG&E								
Short-term investments								
- municipal debt securities					$ 163			$ 163

There were no securities with credit losses at September 30, 2011 or December 31, 2010.

The following table shows the scheduled maturity dates of debt securities held at September 30, 2011.

	Maturity Less Than 1 Year	Maturity 1-5 Years	Maturity 5-10 Years	Maturity in Excess of 10 Years	Total
PPL					
Amortized cost	$ 10	$ 70	$ 64	$ 79	$ 223
Fair value	10	73	70	86	239
PPL Energy Supply					
Amortized cost	$ 10	$ 70	$ 64	$ 74	$ 218
Fair value	10	73	70	81	234

The following table shows proceeds from and realized gains and losses on sales of available-for-sale securities for the periods ended September 30.

	Three Months		Nine Months	
	2011	2010	2011	2010
PPL				
Proceeds from sales of NDT securities (a)	$ 34	$ 15	$ 134	$ 83
Other proceeds from sales			163	
Gross realized gains (b)	3	2	26	11
Gross realized losses (b)	4	1	15	4
PPL Energy Supply				
Proceeds from sales of NDT securities (a)	$ 34	$ 15	$ 134	$ 83
Gross realized gains (b)	3	2	26	11
Gross realized losses (b)	4	1	15	4

(a) These proceeds are used to pay income taxes and fees related to managing the trust. Remaining proceeds are reinvested in the trust.
(b) Excludes the impact of other-than-temporary impairment charges recognized in the Statements of Income.

(PPL, LKE and LG&E)

At December 31, 2010, LG&E held $163 million aggregate principal amount of tax-exempt revenue bonds issued by Louisville/Jefferson County, Kentucky on behalf of LG&E that were purchased from the remarketing agent in 2008. At December 31, 2010, these investments were reflected in "Short-term investments" on the Balance Sheet. During the nine months ended September 30, 2011, LG&E received $163 million for its investments in these bonds when they were remarketed to unaffiliated investors. No realized or unrealized gains (losses) were recorded on these securities, as the difference between carrying value and fair value was not significant.

18. New Accounting Guidance Pending Adoption

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Fair Value Measurements

Effective January 1, 2012, PPL and its subsidiaries will prospectively adopt accounting guidance that was issued to clarify existing fair value measurement guidance as well as enhance fair value disclosures. The additional disclosures required by this guidance include quantitative information about significant unobservable inputs used for Level 3 measurements, qualitative information about the sensitivity of recurring Level 3 measurements, information about any transfers between Level 1 and 2 of the fair value hierarchy, information about when the current use of a non-financial asset is different from the highest and best use, and the hierarchy classification for assets and liabilities whose fair value is disclosed only in the notes to the financial statements.

Any fair value measurement differences resulting from the adoption of this guidance will be recognized in income in the period of adoption. The adoption of this guidance is not expected to have a significant impact on PPL and its subsidiaries.

Presentation of Comprehensive Income

Effective January 1, 2012, PPL and its subsidiaries will retrospectively adopt accounting guidance that was issued to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items that are recorded in OCI. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements where the first statement includes the components of net income and the second statement includes the components of OCI.

Regardless of whether an entity chooses to present comprehensive income in a single continuous statement or in two separate but consecutive statements, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented.

Subsequent to the issuance of this new accounting guidance, the Financial Accounting Standards Board (FASB) announced plans to propose deferral of the requirement that companies present reclassification adjustments for each component of OCI in both net income and OCI on the face of the financial statements. During the deferral period, the FASB also plans to re-evaluate the requirement. The deferral, if finalized, would not change the requirement to present items of net income, items of other comprehensive income and total comprehensive income in either one continuous statement or two separate consecutive statements.

Upon adoption, the change in presentation is not expected to have a significant impact on PPL and its subsidiaries.

Disclosures about an Employer's Participation in a Multiemployer Plan

Effective December 31, 2011, PPL and its subsidiaries will retrospectively adopt accounting guidance that was issued to improve the transparency about an employer's participation in a multiemployer plan. The disclosures required by this guidance include the significant multiemployer plans in which an employer participates, the level of the employer's participation in these plans, the financial health of these plans and the nature of employer commitments to these plans. For plans for which users are unable to obtain additional publicly available information outside the employer's financial statements, additional disclosures are required.

The adoption of this standard is not expected to have a significant impact on PPL and its subsidiaries.

Testing Goodwill for Impairment

Effective January 1, 2012, PPL and its subsidiaries will prospectively adopt accounting guidance which will allow an entity to elect the option to first make a qualitative evaluation about the likelihood of an impairment of goodwill. If, based on this assessment, the entity determines it is not more likely than not the fair value of a reporting unit is less than the carrying amount, the two-step goodwill impairment test is not necessary. However, the first step of the impairment test is required if an entity concludes it is more likely than not the fair value of a reporting unit is less than the carrying amount based on the qualitative assessment.

The adoption of this standard is not expected to have a significant impact on PPL and its subsidiaries.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with PPL's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL's 2010 Form 10-K. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides an overview of PPL's business strategy, financial and operational highlights, and key legal and regulatory matters.

- "Results of Operations" provides a summary of PPL's earnings and a review of results by reportable segment and a description of key factors by segment that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on PPL's Statements of Income, comparing the three and nine months ended September 30, 2011 with the same periods in 2010.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL's liquidity position and credit profile. This section also includes a discussion of rating agency decisions and capital expenditure projections.

- "Financial Condition - Risk Management" provides an explanation of PPL's risk management programs relating to market and credit risk.

- "Application of Critical Accounting Policies" provides an update to PPL's critical accounting policy related to "Business Combinations - Purchase Price Allocation." This critical accounting policy is being updated to reflect the impact of the April 2011 acquisition of WPD Midlands.

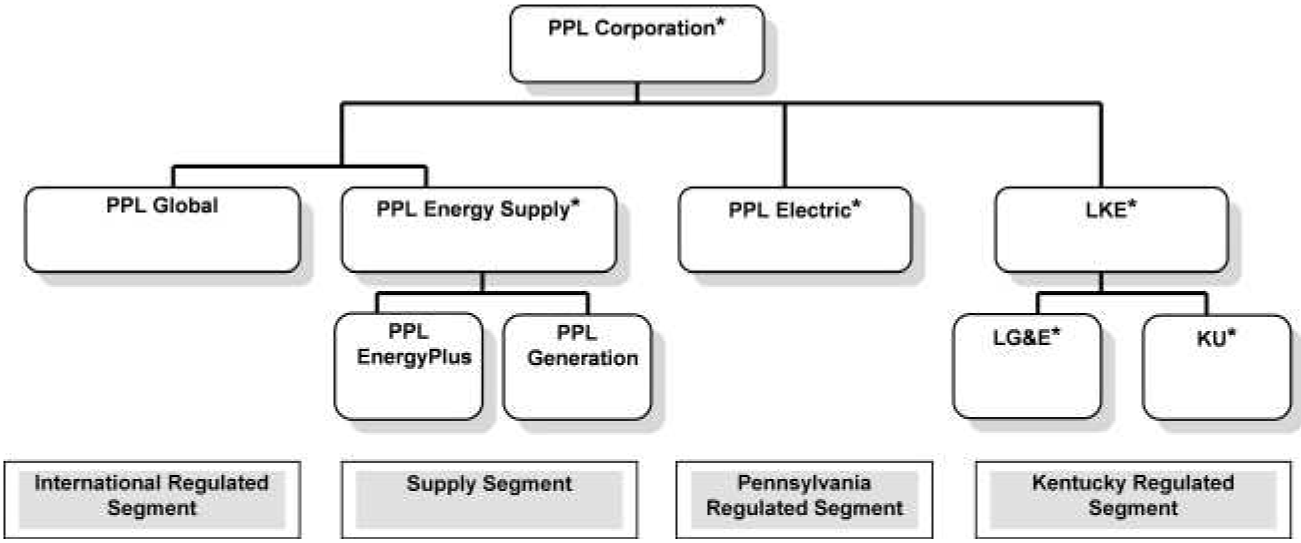
Overview

Introduction

PPL is an energy and utility holding company with headquarters in Allentown, Pennsylvania. Through subsidiaries, PPL generates electricity from power plants in the northeastern, northwestern and southeastern U.S., markets wholesale or retail energy primarily in the northeastern and northwestern portions of the U.S., delivers electricity to customers in Pennsylvania, Kentucky, Virginia, Tennessee and the U.K. and delivers natural gas to customers in Kentucky.

In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to its parent, PPL Energy Funding (the parent holding company of PPL Energy Supply and PPL Global with no other material operations), to better align PPL's organizational structure with the manner in which it manages its businesses and reports segment information in its consolidated financial statements. The distribution separated the U.S.-based competitive energy marketing and supply business from the U.K.-based regulated electricity distribution business. The following chart depicts the organizational structure subsequent to this distribution and illustrates how PPL's principal subsidiaries align with PPL's reportable segments. After distributing PPL Global to its parent, PPL Energy Supply and its subsidiaries' operations are entirely within the Supply segment.

Subsequent to the distribution of PPL Global, PPL's principal subsidiaries are shown below (* denotes an SEC registrant - LKE, LG&E and KU became SEC Registrants effective June 1, 2011):



Business Strategy

PPL's overall strategy is to achieve stable, long-term growth in its regulated electricity delivery businesses through efficient operations and strong customer and regulatory relations, and disciplined growth in energy supply margins while mitigating volatility in both cash flows and earnings. In pursuing this strategy, PPL acquired LKE in November 2010 and WPD Midlands in April 2011. These acquisitions have reduced PPL's overall business risk profile and reapportioned the mix of PPL's regulated and competitive businesses by increasing the regulated portion of its business and enhancing rate-regulated growth opportunities as the regulated businesses make investments to improve infrastructure and customer reliability.

The increase in regulated assets is expected to provide earnings stability through regulated returns and the ability to recover costs of capital investments, in contrast to the competitive energy supply business where earnings and cash flows are subject to commodity market volatility. Following the LKE and WPD Midlands acquisitions, approximately 70% of PPL's assets are in its regulated businesses. The pro forma impacts of the acquisitions of LKE and WPD Midlands on PPL's income from continuing operations (after income taxes) for the nine months ended September 30 are as follows.

	2011				2010			
	Pro forma		Actual		Pro forma		Actual	
Regulated	$ 799	61%	$ 696	58%	$ 704	66%	$ 315	47%
Competitive	507	39%	507	42%	358	34%	358	53%
	$ 1,306		$ 1,203		$ 1,062		$ 673	

Note: Pro forma and actual amounts exclude non-recurring items identified in Note 8 to the Financial Statements.

Accordingly, results for periods prior to the acquisitions of LKE and WPD Midlands are not comparable with, or indicative of, results for periods subsequent to the acquisitions.

With the purchase of WPD Midlands and the related growth of the portion of PPL's overall earnings translated from British pounds sterling, the related foreign currency risk is more substantial. The U.K. subsidiaries also have currency exposure to the U.S. dollar to the extent they have U.S. dollar denominated debt. To manage these risks, PPL generally uses contracts such as forwards, options and cross currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts.

PPL's strategy for its competitive energy supply business is to optimize the value from its unregulated generation and marketing portfolio. PPL endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk.

To manage financing costs and access to credit markets, a key objective of PPL's business strategy is to maintain a strong credit profile. PPL continually focuses on maintaining an appropriate capital structure and liquidity position. In addition, PPL has adopted financial and operational risk management programs that, among other things, are designed to monitor and manage its exposure to earnings and cash flow volatility related to changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of its generating units.

Financial and Operational Highlights

Net Income Attributable to PPL Corporation

Net Income Attributable to PPL Corporation for the three and nine months ended September 30, 2011 was $444 million and $1.0 billion compared to $248 million and $583 million for the same periods in 2010. This represents a 79% increase over 2010 for both periods. These increases reflect the following after-tax impacts by segment.

	Three Months	Nine Months
Kentucky Regulated Segment earnings	$ 78	$ 184
International Regulated Segment		
WPD Midlands earnings	102	159
WPD Midlands acquisition-related costs	(64)	(164)
Reduction in U.K. tax rate related to PPL WW	15	15
Pennsylvania Regulated Segment		
Distribution base rate increase effective January 2011	9	29
Supply Segment		
Net unrealized gains/(losses) on energy-related economic activity	(14)	119
Impairment charges in 2010 related to the sale of certain non-core generation facilities	62	60
Losses on the monetization of certain full-requirement sales contracts in 2010	27	102
Litigation settlement in 2011 related to spent nuclear fuel storage	4	33
Change in "Unregulated Gross Energy Margins" (a)	(37)	(154)
Unallocated costs - LKE acquisition-related costs in 2010	34	53
Other	(20)	22
	$ 196	$ 458

(a) The change in "Unregulated Gross Energy Margins" is primarily due to lower baseload energy and capacity prices, changes in coal and hydro generation volumes and losses from the monetization of certain contracts in 2010 that rebalanced the business and portfolio, partially offset by higher margins on full-requirement sales contracts driven by contracts monetized in 2010 and reduced shopping. See "Statement of Income Analysis - Margins" for additional information and a reconciliation of "Unregulated Gross Energy Margins" to Operating Income.

See "Results of Operations" below for further discussion and analysis of the consolidated results of operations, as well as a discussion of each of PPL's business segments.

Acquisition of WPD Midlands

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, acquired Central Networks, which operates two regulated distribution networks that serve five million end users in the Midlands area of England, for $6.6 billion, including long-term debt assumed through the acquisition. Subsequent to the close of the acquisition, the entities acquired were renamed and are collectively referred to as WPD Midlands. The service territories of PPL WW and WPD Midlands are contiguous and cost savings, efficiencies and other benefits are expected from the combined operation of these entities.

The cash consideration of $5.8 billion was primarily funded by borrowings under the 2011 Bridge Facility. The following permanent financing was completed in the second quarter of 2011 to repay 2011 Bridge Facility borrowings, pay certain acquisition-related fees and raise additional capital for general corporate purposes.

- PPL issued 92 million shares of its common stock and received net proceeds of $2.258 billion.
- PPL issued 19.55 million 2011 Equity Units and received net proceeds of $948 million.
- PPL WEM issued $460 million of 3.90% Senior Notes due 2016 and $500 million of 5.375% Senior Notes due 2021 and received net proceeds of $953 million.
- WPD (West Midlands) issued £800 million of 5.75% Senior Notes due 2032 and WPD (East Midlands) issued £600 million of 5.25% Senior Notes due 2023. Collectively, net proceeds of £1.4 billion were received, which equated to $2.2 billion at the time of issuance.
- WPD (East Midlands) issued £100 million of Index-Linked Notes due 2043 and received net proceeds of £99 million, which equated to $163 million at the time of issuance.

Pursuant to WPD's previously described intention to combine the operations of PPL WW and WPD Midlands, approximately 740 employees of WPD Midlands will receive separation benefits from the companies as a new regional structure is implemented. In September 2011, WPD determined that the total separation benefits payable in connection with the reorganization would be $102 million, including $58 million of severance compensation, $43 million of early retirement deficiency costs (ERDC) and $1 million in outplacement services.

WPD Midlands recorded $84 million of the total separation benefits in the three and nine months ended September 30, 2011, of which $41 million relates to severance compensation and $43 million relates to ERDC. WPD Midlands expects to record the remaining portion of severance compensation, based on the expected timing of when employees will separate from the companies, as follows: an estimated $6 million in the fourth quarter of 2011 and an estimated $11 million in 2012. The separation benefits recorded in the three and nine months ended September 30, 2011 are included in "Other operation and maintenance" on the Statement of Income. The $41 million of accrued severance compensation is reflected in "Other current liabilities" and the ERDC of $43 million reduced "Other noncurrent assets" on the Balance Sheet at September 30, 2011.

These amounts do not include $9 million recorded in the nine months ended September 30, 2011 for ERDC payable under applicable pension plans and severance compensation for certain employees who separated from the WPD Midlands companies, but were not part of the reorganization. These separation benefits are included in "Other operation and maintenance" on the Statement of Income.

PPL incurred acquisition-related costs of $84 million and $215 million, pre tax, for the three and nine months ended September 30, 2011 which includes, among other items, the separation benefits discussed above, advisory, accounting and legal fees, taxes and certain financing costs, including gains on hedges and foreign currency losses on the 2011 Bridge Facility.

See Note 8 to the Financial Statements for additional information related to the acquisition and Note 7 to the Financial Statements for additional information related to the financings.

Registered Debt Exchange Offer by LKE, LG&E and KU

In April 2011, LKE, LG&E and KU each filed a Registration Statement with the SEC, related to an offer to exchange certain first mortgage bonds and senior notes issued in November 2010, in transactions not subject to registration under the Securities Act of 1933, with similar but registered securities. The 2011 Registration Statements became effective in June 2011, and the exchanges were completed in July 2011 with substantially all of LKE's senior notes and LG&E's and KU's first mortgage bonds being exchanged. See Note 7 to the Financial Statements and PPL's 2010 Form 10-K for additional information on the original debt issuances.

Susquehanna Turbine Blade Replacement

In April 2011, during the PPL Susquehanna Unit 2 refueling and generation uprate outage, a planned inspection of the Unit 2 turbine revealed cracks in certain of its low pressure turbine blades. Replacement of these blades was required, but was not anticipated as part of the original scope of this outage. The necessary replacement work extended the Unit 2 outage by six weeks. As a precaution, PPL Susquehanna also took Unit 1 out of service in mid-May to inspect the turbine blades in that unit. This inspection revealed cracks in blades similar to those found in Unit 2. The duration of the Unit 1 outage, in which turbine blades were replaced, was also about six weeks. The after-tax earnings impact, including reduced energy-sales margins and repair expense for both units, was $63 million. The majority of these costs were incurred during the second quarter of 2011.

Storm Recovery

PPL Electric experienced several PUC-reportable storms during the three and nine months ended September 30, 2011 resulting in total restoration costs of $34 million and $59 million, of which $23 million and $39 million were recorded in "Other operation and maintenance" on the Statement of Income. However, a PPL subsidiary has a $10 million reinsurance policy with a third party insurer. In the third quarter of 2011 a $10 million receivable was recorded with an offsetting credit to "Other operation and maintenance" on the Statement of Income. In November 2011, PPL Electric filed with the PUC a request for permission to defer $15 million to $20 million for future recovery of allowable storm-related costs. At the time PPL Electric seeks recovery of any deferred amount, its claim will be based on the actual costs, net of insurance recoveries. A regulatory asset, for the actual costs net of insurance recoveries, will be recorded at such time as an order is received from the PUC approving deferral of these costs.

In late October 2011, PPL Electric experienced significant damage to its transmission and distribution network from a severe snow storm. The costs associated with the restoration efforts are still being determined and are not included in the amounts disclosed above. PPL Electric will evaluate such costs, when quantified, and will likely file with the PUC for permission to defer certain of the costs incurred to repair the distribution network for future recovery. Costs incurred to repair the transmission network are recoverable through the FERC Formula Rate mechanism which is updated annually.

Legal and Regulatory Matters

Federal

CSAPR

In July 2011, the EPA signed the CSAPR which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. This rule applies to PPL's Pennsylvania and Kentucky plants. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions. In October 2011, the EPA proposed technical adjustments to the CSAPR to account for updated data submitted to the agency. Several states and a number of companies have filed petitions for review with the U.S. Court of Appeals for the District of Columbia Circuit challenging various provisions of the CSAPR. PPL's initial review of the allocations under the CSAPR indicates that greater reductions in sulfur dioxide emissions will be required beginning in 2012 under the CSAPR than were required under the CAIR.

For the initial phase of the rule beginning in 2012, sulfur dioxide allowance allocations are expected to be greater than the forecasted emissions based on present operations of existing sulfur dioxide scrubbers and coal supply. However, for the second phase beginning in 2014, PPL will likely have to modify operations and dispatch of its generation fleet in Pennsylvania and Kentucky, including upgrades or installation of new sulfur dioxide scrubbers for certain generating units or retirement of certain other units.

With respect to nitrogen oxide emissions, the CSAPR provides a slightly higher amount of allowances for PPL's Pennsylvania plants, but still less than the current forecasted emissions and a slightly higher amount of allowances for the Kentucky plants than under CAIR. With uncertainty surrounding the trading program, other compliance options are being analyzed for the Pennsylvania and Kentucky fleets, such as the installation of new technology or modifications of plant operations as well as the retirement and replacement of certain coal-fired generating units in Kentucky. LG&E and KU are seeking recovery of their expected costs to comply with the CSAPR and certain other EPA requirements through the ECR plan filed with the KPSC in June 2011.

Additionally, PPL's plants, including those in Montana, may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. PPL anticipates that some of the measures required for compliance with the CSAPR, such as upgraded or new sulfur dioxide scrubbers at some of its plants and retirement of certain units, may also be necessary to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the economic impact to PPL could be significant. See Notes 6 and 10 to the Financial Statements for additional information on the CSAPR and the Kentucky regulatory proceeding.

Spent Nuclear Fuel Litigation

In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna station. Under the settlement agreement, PPL Susquehanna received $50 million, pre-tax for its share of claims to partially offset its expenses incurred to store spent nuclear fuel at the Susquehanna station through September 2009, and recognized a credit to "Fuel" expense in the second quarter of 2011. PPL Susquehanna also will be eligible to receive payment of annual claims for allowed costs that are incurred thereafter through the December 2013 termination of the settlement agreement. See Note 10 to the Financial Statements for additional information.

Kentucky and Virginia

CPCN Filing

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run station site. LG&E and KU also requested approval to purchase three additional natural gas combustion turbines from Bluegrass Generation Company, L.L.C. (Bluegrass Plant) that are expected to provide up to 495 MW of peak generation supply. LG&E and KU anticipate that the NGCC construction and Bluegrass Plant acquisition could require up to $800 million in capital costs including related transmission projects. Formal requests for recovery of the costs associated with the NGCC and Bluegrass Plant acquisition were not included in the CPCN filing with the KPSC, but are expected to be included in a future base rate case filing. The KPSC issued an Order on the procedural schedule in the CPCN filing that has discovery, but no hearing, scheduled through early February 2012. A KPSC order on the CPCN filing is anticipated in the second quarter of 2012. See Note 6 to the Financial Statements for additional information.

ECR Filing - Environmental Upgrades

In June 2011, in order to achieve compliance with new and pending mandated federal EPA regulations, LG&E and KU filed ECR plans with the KPSC requesting approval to install environmental upgrades for certain of their coal-fired plants and for recovery of the expected $2.5 billion in associated capital costs, as well as operating expenses as incurred. The ECR plans included upgrades that will be made to certain of their coal-fired generating stations to continue to be compliant with EPA regulations. See Notes 6 and 10 to the Financial Statements for additional information.

Pennsylvania

Legislation - Regulatory Procedures and Mechanisms

In June 2011, the Pennsylvania House Consumer Affairs Committee approved legislation that would authorize the PUC to approve regulatory procedures and mechanisms to provide for more timely recovery of a utility's costs. Alternative ratemaking is important to PPL Electric as it begins a period of significant increasing capital investment related to the asset optimization program focused on the replacement of aging distribution assets. Those procedures and mechanisms include, but are not limited to, the use of a fully projected test year and an automatic adjustment clause to recover certain capital costs and related operating expenses. In October 2011, the legislation was passed by the Pennsylvania House of Representatives. It will now be considered by the Pennsylvania Senate. PPL Electric is working with other stakeholders to support passage of this legislation but cannot predict the outcome of this process.

Montana

Montana Hydroelectric Litigation

In June 2011, the U.S. Supreme Court granted PPL Montana's petition to review the March 2010 Montana Supreme Court decision, which substantially affirmed the June 2008 Montana District Court decision to award the State of Montana retroactive compensation for PPL Montana's hydroelectric facilities' use and occupancy of certain Montana riverbeds. Oral argument is scheduled for December 2011. The stay of judgment granted during the proceedings before the Montana Supreme Court has been extended by agreement with the State of Montana to cover the anticipated period of the proceeding before the U.S. Supreme Court. See Note 10 to the Financial Statements for additional information.

U.K.

Tax Rate Change

In July 2011, the U.K.'s Finance Act of 2011 was enacted. The most significant change to the law was a reduction in the U.K.'s statutory income tax rate. The statutory tax rate was changed from 27% to 26%, effective April 1, 2011 and from 26% to 25%, effective April 1, 2012. As a result of these changes, for the three and nine months ended September 30, 2011, PPL reduced its net deferred tax liabilities and recognized a $69 million deferred tax benefit to comprehend both rate decreases.

The U.K.'s Finance Act of 2010, enacted in July 2010, also included a reduction in the U.K. statutory income tax rate. Effective April 1, 2011, the statutory income tax rate was reduced from 28% to 27%. As a result, PPL reduced its net deferred tax liabilities and recognized a $19 million deferred tax benefit for the three and nine months ended September 30, 2010.

Ofgem Pricing Model

In October 2010, Ofgem announced a pricing model that will be effective for the U.K. electricity distribution sector, including WPD, beginning April 2015. The model, known as RIIO (Revenues = Incentives + Innovation + Outputs), is intended to encourage investment in regulated infrastructure. Key components of the model are: an extension of the price review period from five to eight years; increased emphasis on outputs and incentives; enhanced stakeholder engagement including network customers; a stronger incentive framework to encourage more efficient investment and innovation; expansion of the current Low Carbon Network Fund to stimulate innovation; and continued use of a single weighted average cost of capital. At this time, management does not expect the impact of this pricing model to be significant to WPD's operating results.

Results of Operations

As a result of the LKE acquisition on November 1, 2010 and the WPD Midlands acquisition on April 1, 2011, LKE's and WPD Midlands' results (since the date of acquisition) for the three and nine months ended September 30, 2011 are included in PPL's results. When discussing PPL's results of operations for 2011 compared with 2010, the results of LKE and WPD Midlands are isolated for purposes of comparability. LKE's results are included within "Segment Results - Kentucky Regulated Segment" and WPD Midlands' results are included within "Segment Results - International Regulated Segment." The results of WPD (including WPD Midlands) are recorded on a one-month lag.

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods.

Tables analyzing changes in amounts between periods within "Segment Results" and "Statement of Income Analysis" are presented on a constant U.K. foreign currency exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant U.K. foreign currency exchange rate basis are calculated by translating current year results at the prior year weighted-average foreign currency exchange rate.

Earnings

Net Income Attributable to PPL Corporation and related EPS for the periods ended September 30 was:

	Three Months		Nine Months	
	2011	2010	2011	2010
Net Income Attributable to PPL Corporation	$ 444	$ 248	$ 1,041	$ 583
EPS - basic	$ 0.76	$ 0.51	$ 1.92	$ 1.40
EPS - diluted	$ 0.76	$ 0.51	$ 1.91	$ 1.40

The changes in Net Income Attributable to PPL Corporation from period to period were, in part, attributable to the acquisitions of LKE and WPD Midlands and several items that management considers special. Details of these special items are provided within the review of each segment's earnings.

Segment Results

Net Income Attributable to PPL Corporation by segment for the periods ended September 30 was:

	Three Months		Nine Months	
	2011	2010	2011	2010
Kentucky Regulated	$ 78		$ 184	
International Regulated (a)	138	$ 93	231	$ 227
Pennsylvania Regulated	28	36	116	89
Supply	200	153	510	320
Unallocated Costs (b)		(34)		(53)
Total	$ 444	$ 248	$ 1,041	$ 583

(a) As a result of the acquisition on April 1, 2011, WPD Midlands' results since the acquisition date, recorded on a one-month lag, are included in the 2011 amounts.

(b) The three and nine months ended September 30, 2010 include $4 million and $11 million, pre-tax, ($2 million and $8 million, after-tax) of certain acquisition-related costs, including advisory, accounting and legal fees associated with the acquisition of LKE that are recorded in "Other Income (Expense) - net" on the Statements of Income. Also included are $45 million and $67 million, pre-tax, ($31 million and $44 million, after-tax) of 2010 Bridge Facility costs that are recorded in "Interest Expense" on the Statements of Income. See Notes 7 and 10 in PPL's 2010 Form 10-K for additional information on the acquisition and related financing. These costs were considered special items by management and were not included within any segment's results.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's results from the operation of regulated electricity generation, transmission and distribution assets, primarily in Kentucky, as well as in Virginia and Tennessee. This segment also includes LKE's results from the regulated distribution and sale of natural gas in Kentucky.

Kentucky Regulated segment Net Income Attributable to PPL Corporation for the periods ended September 30, 2011 was:

	Three Months	Nine Months
Operating revenues	$ 736	$ 2,140
Fuel and energy purchases	277	845
Other operation and maintenance	187	566
Depreciation	84	249
Taxes, other than income	10	28
Total operating expenses	558	1,688
Other Income (Expense) - net		(1)
Interest Expense (a)	53	161
Income Taxes	46	105
Income (Loss) from Discontinued Operations	(1)	(1)
Net Income Attributable to PPL Corporation	$ 78	$ 184

(a) The three and nine months ended September 30, 2011 include allocated interest expense of $17 million and $53 million, pre-tax, related to the 2010 Equity Units and certain interest rate swaps.

The following after-tax amounts, which management considers special items, also impacted the segment's earnings for the periods ended September 30, 2011.

	Line Item	Three Months	Nine Months
Special Items, net of tax benefit (expense):			
Adjusted energy-related economic activity, net, net of tax of ($1), $0	Utility Revenues	$ 1	$ 1
Other:			
LKE discontinued operations, net of tax of $1, $0	Disc. Operations	(1)	(1)
Total		$	$

Outlook

Excluding special items, and the impact of a full year of earnings versus two months in 2010, earnings are expected generally to be driven by the results of electricity and natural gas base rate increases that became effective August 1, 2010.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2 and Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business," and "Item 1A. Risk Factors" in PPL's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings. Among these uncertainties is the ultimate regulatory recovery of storm costs recorded as regulatory assets.

International Regulated Segment

The International Regulated segment consists primarily of the electric distribution operations in the U.K. As a result of the acquisition on April 1, 2011, WPD Midlands' results since the acquisition date are included in the 2011 results, recorded on a one-month lag.

International Regulated segment Net Income Attributable to PPL Corporation for the periods ended September 30 was:

	Three Months			Nine Months		
	2011	2010	% Change	2011	2010	% Change
Utility revenues	$ 194	$ 163	19	$ 613	$ 538	14
Energy-related businesses	8	9	(11)	27	25	8
Total operating revenues	202	172	17	640	563	14
Other operation and maintenance	45	39	15	136	122	11
Depreciation	32	28	14	94	86	9
Taxes, other than income	14	12	17	40	39	3
Energy-related businesses	4	4		12	12	
Total operating expenses	95	83	14	282	259	9
Other Income (Expense) - net	10		n/a	13	2	550
Interest Expense	34	38	(11)	119	102	17
Income Taxes	(17)	(42)	(60)	16	(23)	(170)
WPD Midlands, net of tax (a)	102		n/a	159		n/a
WPD Midlands acquisition-related costs, net of tax (b)	(64)		n/a	(164)		n/a
Net Income Attributable to PPL Corporation	$ 138	$ 93	48	$ 231	$ 227	2

(a) Represents the operations of WPD Midlands since the acquisition date, recorded on a one-month lag, including revenue from external customers of $292 million and $499 million (pre-tax) for the three and nine months ended September 30, 2011. The three and nine-month periods also include allocated charges totaling $16 million and $24 million (after-tax), which include interest expense related to the 2011 Equity Units.
(b) Represents items considered special by management, including $2 million and $44 million (after-tax) of allocated charges for the three and nine months ended September 30, 2011.

The changes in the components of Net Income Attributable to PPL Corporation between the periods ended September 30, 2011 and 2010 were primarily due to the following factors. The amounts for PPL WW are presented on a constant U.K. foreign currency exchange rate basis in order to isolate the impact of the change in the exchange rate.

	Three Months	Nine Months
PPL WW		
Utility revenues	$ 21	$ 51
Other operation and maintenance	(7)	(9)
Interest expense	2	(12)
Income taxes	(8)	(16)
Foreign currency exchange rates	3	7
Other	(1)	(1)
WPD Midlands, after-tax	67	124
U.S.		
Income taxes	(14)	(20)
Other	(1)	(4)
Special items, after-tax	(17)	(116)
Total	$ 45	$ 4

PPL WW

- Utility revenues were $24 million and $45 million higher resulting from a price increase in April 2011 for the three-month period and in April 2010 and 2011 for the nine-month period. In addition, the nine-month period was higher due to a $9 million unfavorable impact on regulatory allowed revenues associated with a charge recorded in the first quarter of 2010 primarily resulting from changes in the network electricity line loss assumptions. Such charges were insignificant in the first quarter of 2011.

- Other operation and maintenance expense was higher for the three and nine-month periods primarily due to $4 million and $7 million of higher pension expense resulting primarily from an increase in amortization of actuarial losses.

- Interest expense for the nine-month period was $11 million higher due to higher debt balances arising from a March 2010 debt issuance.

- U.K. income taxes were higher in the three-month period due to $4 million of additional tax as a result of higher pre-tax income.

  U.K. income taxes were higher in the nine-month period due to $8 million of additional tax as a result of higher pre-tax income and a $7 million income tax benefit recorded in 2010 related to uncertain tax positions.

- U.S. income taxes were higher in the three-month period primarily due to a $20 million tax benefit recorded in 2010 related to a favorable U.S. Tax Court ruling on the creditability of the U.K. Windfall Profits Tax. This increase was partially offset by a $7 million U.S. tax benefit recorded in 2011 as a result of U.K. pension plan contributions.

  U.S. income taxes were higher in the nine-month period primarily due to a $20 million tax benefit recorded in 2010 related to a favorable U.S. Tax Court ruling on the creditability of the U.K. Windfall Profits Tax, $9 million of higher taxes due to tax benefits recorded in 2010 related to foreign dividends and tax refunds and $8 million of higher taxes in 2011 on foreign source income. These increases were partially offset by a $21 million tax benefit recorded in 2011 as a result of U.K. pension plan contributions.

The following after-tax amounts, which management considers special items, also impacted the segment's earnings for the periods ended September 30.

	Income Statement Line Item	Three Months 2011	Three Months 2010	Nine Months 2011	Nine Months 2010
Special Items, net of tax benefit (expense):					
Foreign currency-related economic hedges, net of tax of ($3), $0, ($4), $0 (a)	Other Income-net	$ 8	$ (1)	$ 8	$ (2)
WPD Midlands acquisition-related costs:					
2011 Bridge Facility costs, net of tax of $0, $0, $13, $0 (b)	Interest Expense			(30)	
Foreign currency loss on 2011 Bridge Facility, net of tax of $0, $0, $19, $0 (c)	Other Income-net			(38)	
Net hedge gains, net of tax of $0, $0, ($17), $0 (c)	Other Income-net			38	
Hedge ineffectiveness, net of tax of $0, $0, $3, $0 (d)	Interest Expense			(9)	
U.K. stamp duty tax, net of tax of $0, $0, $0, $0 (e)	Other Income-net			(21)	
Separation benefits, net of tax of $22, $0, $24, $0 (f)	Other O&M	(64)		(68)	
Other acquisition-related costs, net of tax of ($2), $0, $9, $0	(g)			(36)	
Other:					
Change in U.K. tax rate (h)	Income Taxes	69	19	69	19
U.S. Tax Court ruling (U.K. Windfall Profits Tax) (i)	Income Taxes		12		12
Total		$ 13	$ 30	$ (87)	$ 29

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated earnings denominated in GBP.
(b) Represents fees incurred in connection with establishing the 2011 Bridge Facility. See Note 7 to the Financial Statements for additional information.
(c) Represents the foreign currency loss on the repayment of the 2011 Bridge Facility, including a pre-tax foreign currency loss of $15 million associated with proceeds received on the U.S. dollar-denominated senior notes issued by PPL WEM in April 2011 that were used to repay a portion of PPL WEM's borrowing under the 2011 Bridge Facility. The foreign currency risk was economically hedged with forward contracts to purchase GBP, which resulted in pre-tax gains of $55 million.
(d) Represents a combination of ineffectiveness associated with closed out interest rate swaps and a charge recorded as a result of certain interest rate swaps failing hedge effectiveness testing.
(e) Tax on the transfer of ownership of property in the U.K. which is not tax deductible for income tax purposes.
(f) Primarily represents severance compensation, early retirement deficiency costs and outplacement services for employees separating from the WPD Midlands companies as a result of a reorganization to transition the WPD Midlands companies to the same operating structure as WPD (South West) and WPD (South Wales). Also includes severance compensation and early retirement deficiency costs associated with certain employees who separated from the WPD Midlands companies, but were not part of the reorganization.
(g) The nine months ended September 30, 2011 primarily includes $36 million, pre-tax, of advisory, accounting and legal fees which are reflected in "Other Income (Expense) - net" on the Statements of Income. Other acquisition-related costs of $9 million were recorded to "Other operation and maintenance" expense on the Statements of Income.
(h) The U.K.'s Finance Act of 2011, enacted in July 2011, reduced the U.K. statutory income tax rate from 27% to 26% retroactive to April 1, 2011 and will further reduce the rate from 26% to 25% effective April 1, 2012. As a result, PPL reduced its net deferred tax liability and recognized a deferred tax benefit in the three and nine-month periods of 2011 to comprehend both rate decreases. WPD Midlands' portion of the deferred tax benefit is $35 million.

The U.K.'s Finance Act of 2010, enacted in July 2010, reduced the U.K. statutory income tax rate from 28% to 27% effective April 1, 2011. As a result, PPL reduced its net deferred tax liability and recognized a deferred tax benefit in the three and nine-month periods of 2010.
(i) Represents the net tax benefit recorded as a result of the U.S. Tax Court ruling that the U.K. Windfall Profits Tax is creditable for U.S. tax purposes, excluding the reversal of accrued interest.

Outlook

Excluding special items and the impact of the newly acquired U.K. businesses, earnings are expected to be higher in 2011, compared with 2010, primarily due to higher electricity delivery revenue and a more favorable currency exchange rate, partially offset by higher income taxes, higher depreciation and higher financing costs.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements and "Part II. Other Information - Item 1A. Risk Factors" in this Form 10-Q and "Item 1. Business," and "Item 1A. Risk Factors" in PPL's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

<u>Pennsylvania Regulated Segment</u>

The Pennsylvania Regulated segment includes the regulated electric delivery operations of PPL Electric.

Pennsylvania Regulated segment Net Income Attributable to PPL Corporation for the periods ended September 30 was:

	Three Months			Nine Months		
	2011	2010	% Change	2011	2010	% Change
Operating revenues						
External	$ 454	$ 570	(20)	$ 1,444	$ 1,901	(24)
Intersegment	1	1		9	5	80
Total operating revenues	455	571	(20)	1,453	1,906	(24)
Energy purchases						
External	171	229	(25)	591	848	(30)
Intersegment	5	71	(93)	15	250	(94)
Other operation and maintenance	146	126	16	402	377	7
Depreciation	38	34	12	108	101	7
Taxes, other than income	26	32	(19)	83	108	(23)
Total operating expenses	386	492	(22)	1,199	1,684	(29)
Other Income (Expense) - net	3		n/a	4	4	
Interest Expense	26	24	8	74	74	
Income Taxes	14	15	(7)	56	47	19
Net Income	32	40	(20)	128	105	22
Net Income Attributable to Noncontrolling Interests	4	4		12	16	(25)
Net Income Attributable to PPL Corporation	$ 28	$ 36	(22)	$ 116	$ 89	30

The changes in the components of Net Income Attributable to PPL Corporation between the periods ended September 30, 2011 and 2010 were due to the following factors.

	Three Months	Nine Months
Pennsylvania gross delivery margins	$ 8	$ 56
Other operation and maintenance	(15)	(18)
Depreciation	(4)	(7)
Other	2	1
Income taxes	1	(9)
Noncontrolling interests		4
Total	$ (8)	$ 27

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of gross margins from the Pennsylvania regulated electric delivery operations.

- Other operation and maintenance expenses were $14 million and $17 million higher for the three and nine-month periods due to storm costs exceeding insurance policy limits in 2011.

- Income taxes were $12 million higher for the nine-month period due to higher pre-tax income. This increase was partially offset by a $5 million tax benefit related to the impact of flow-through regulated tax depreciation that is primarily related to the Pennsylvania Department of Revenue interpretive guidance regarding 100% bonus depreciation.

Outlook

Excluding special items, earnings are expected to be slightly higher in 2011, compared with 2010, as a result of higher distribution revenues from a January 1, 2011 distribution base rate increase, partially offset by higher operation and maintenance expenses.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2 and Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business," and "Item 1A. Risk Factors" in PPL's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings. Among these uncertainties are the ultimate regulatory recovery of storm costs, transmission service charges and other regulatory assets.

Supply Segment

The Supply segment primarily consists of the energy marketing and trading activities, as well as the competitive generation and development operations of PPL Energy Supply. In 2011 and 2010, PPL Energy Supply subsidiaries completed the sale of several businesses, which have been classified as Discontinued Operations. See Note 8 to the Financial Statements for additional information.

Supply segment Net Income Attributable to PPL Corporation for the periods ended September 30 was:

	Three Months			Nine Months		
	2011	2010	% Change	2011	2010	% Change
Energy revenues						
External (a)	$ 1,305	$ 1,339	(3)	$ 3,437	$ 3,908	(12)
Intersegment	5	71	(93)	15	250	(94)
Energy-related businesses	132	98	35	360	286	26
Total operating revenues	1,442	1,508	(4)	3,812	4,444	(14)
Fuel and energy purchases						
External (a)	693	779	(11)	1,572	2,512	(37)
Intersegment	2	1	100	3	2	50
Other operation and maintenance	191	199	(4)	707	731	(3)
Depreciation	66	65	2	194	189	3
Taxes, other than income	18	12	50	49	34	44
Energy-related businesses	131	96	36	356	276	29
Total operating expenses	1,101	1,152	(4)	2,881	3,744	(23)
Other Income (Expense) - net	22	(23)	(196)	41	(14)	(393)
Other-Than-Temporary Impairments	5		n/a	6	3	100
Interest Expense	59	63	(6)	159	170	(6)
Income Taxes	99	63	57	299	154	94
Income (Loss) from Discontinued Operations	1	(53)	(102)	3	(38)	(108)
Net Income	201	154	31	511	321	59
Net Income Attributable to Noncontrolling Interests	1	1		1	1	
Net Income Attributable to PPL Corporation	$ 200	$ 153	31	$ 510	$ 320	59

(a) Includes the impact from energy-related economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements for additional information.

The changes in the components of Net Income Attributable to PPL Corporation between the periods ended September 30, 2011 and 2010 were due to the following factors.

	Three Months	Nine Months
Unregulated gross energy margins	$ (64)	$ (264)
Other operation and maintenance	(2)	(40)
Other income (expense) - net	20	27
Other	(4)	(9)
Income taxes	(7)	85
Discontinued operations, after-tax - excluding certain revenues and expenses included in margins	5	14
Special items, after-tax	99	377
Total	$ 47	$ 190

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.

- Other operation and maintenance expense was higher for the nine-month period primarily due to $16 million of higher payroll-related costs, $9 million of which relates to PPL Susquehanna, and increased costs at PPL Susquehanna of $10 million from the dual-unit turbine blade replacement outages and $8 million from the refueling outage.

- Other income (expense)-net was higher for the three and nine-month periods primarily due to a $22 million gain on the redemption of debt in 2011. See Note 12 to the Financial Statements for additional information.

- Income taxes for the three-month period includes adjustments in federal and state income tax reserves of $13 million and a $12 million decrease in the tax benefit from the domestic manufacturing deduction resulting from the impact of revised bonus tax depreciation estimates and the $27 million impact of lower pre-tax income.

  Income taxes were $135 million lower for the nine-month period primarily due to lower pre-tax income. The decrease in income taxes was partially offset by a $24 million decrease in the tax benefit from the domestic manufacturing deduction resulting from the impact of revised bonus tax depreciation, $19 million in Pennsylvania net operating loss valuation allowance adjustments, primarily related to the impact of 100% bonus tax depreciation on future projected Pennsylvania taxable income, and a $13 million increase in income taxes due to 2010 adjustments in federal and state income tax reserves.

The following after-tax amounts, which management considers special items, also impacted the segment's earnings for the periods ended September 30.

	Income Statement Line Item	Three Months 2011	Three Months 2010	Nine Months 2011	Nine Months 2010
Special Items, net of tax benefit (expense):					
Adjusted energy-related economic activity, net, net of tax of $8, ($1), ($2), $83	(a)	$ (10)	$ 4	$ 4	$ (115)
Sales of assets:					
Sundance indemnification, net of tax of $0, $0, $0, $0	Other Income-net				1
Impairments:					
Emission allowances, net of tax of $0, $2, $1, $6 (Note 13)	Other O&M		(2)	(1)	(9)
Renewable energy credits, net of tax of $0, $0, $2, $0 (Note 13)	Other O&M			(3)	
Adjustments - nuclear decommissioning trust investments, net of tax of $2, $0, $2, $1 (b)	Other Income-net	(1)			
LKE acquisition-related costs:					
Monetization of certain full-requirement sales contracts, net of tax of $0, $20, $0, $72	(c)		(27)		(102)
Sale of certain non-core generation facilities, net of tax of $0, $39, $0, $39 (d)	Disc. Operations		(62)	(2)	(62)
Discontinued cash flow hedges and ineffectiveness, net of tax of $0, $10, $0, $10 (e)	Other Income-net		(19)		(19)
Other:					
Montana hydroelectric litigation, net of tax of $0, $0, $1, $22	(f)	(1)	(1)	(2)	(34)
Litigation settlement - spent nuclear fuel storage, net of tax of ($2), $0, ($23), $0 (g)	Fuel	4		33	
Health care reform - tax impact (h)	Income Taxes				(8)
Total		$ (8)	$ (107)	$ 29	$ (348)

(a) See "Reconciliation of Economic Activity" below.

(b) Represents other-than-temporary impairment charges on securities, including the reversal of previous other-than-temporary impairment charges when securities previously impaired were sold.

(c) See "Monetization of Certain Full-Requirement Sales Contracts" in Note 14 to the Financial Statements. For the three and nine months ended September 30, 2010, $150 and $343 million of pre-tax gains were recorded to "Wholesale energy marketing" and $197 and $517 million of pre-tax losses were recorded to "Energy purchases" on the Statements of Income.

(d) Assets associated with certain non-core generation facilities were written down to their estimated fair value (less cost to sell). These facilities were sold in March 2011.

(e) Due to expected net proceeds from the then-anticipated sale of certain non-core generation facilities, coupled with the monetization of certain full-requirement sales contracts, debt that had been planned to be issued by PPL Energy Supply was no longer needed. As a result, hedge accounting associated with the interest rate swaps entered into by PPL in anticipation of a debt issuance by PPL Energy Supply was discontinued.

(f) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. Through September 30, 2010, PPL Montana recorded a pre-tax charge of $56 million, representing estimated rental compensation for years prior to 2010, including interest. Of this total charge $47 million, pre-tax, was recorded to "Other operation and maintenance" and $9 million, pre-tax, was recorded to "Interest Expense" on the Statements of Income. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the Supreme Court granted PPL Montana's petition. Oral argument is scheduled for December 2011. PPL Montana continues to accrue interest expense on rental compensation covered by the court decision.

(g) In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna station. PPL Susquehanna recorded credits to fuel expense of $6 million and $56 million, pre-tax for the three and nine months ended September 30, 2011 to recognize recovery, under the settlement agreement, of certain costs to store spent nuclear fuel at the Susquehanna station. The amounts recorded through September 2011 cover the costs incurred from 1998 through December 2010.

(h) Represents income tax expense recorded as a result of the provisions within Health Care Reform which eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) from the table within "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements to the special item identified as "Adjusted energy-related economic activity, net" for the periods ended September 30.

	Three Months		Nine Months	
	2011	2010	2011	2010
Operating Revenues				
Unregulated retail electric and gas	$ 4	$ 8	$ 9	$ 16
Wholesale energy marketing	216	52	229	(190)
Operating Expenses				
Fuel	(28)	16	(16)	13
Energy Purchases	(176)	(300)	(49)	(418)
Energy-related economic activity (a)	16	(224)	173	(579)
Option premiums (b)	6	21	17	46
Adjusted energy-related economic activity	22	(203)	190	(533)
Less: Unrealized economic activity associated with the monetization of certain full-requirement sales contracts in 2010 (c)		(208)		(335)
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010	40		184	
Adjusted energy-related economic activity, net, pre-tax	$ (18)	$ 5	$ 6	$ (198)
Adjusted energy-related economic activity, net, after-tax	$ (10)	$ 4	$ 4	$ (115)

(a) See Note 14 to the Financial Statements for additional information.
(b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. Option premiums are recorded in Wholesale energy marketing - realized and Energy purchases - realized on the Statements of Income.
(c) See "Components of Monetization of Certain Full-Requirement Sales Contracts" below.

Components of Monetization of Certain Full-Requirement Sales Contracts

The following table provides the components of the "Monetization of Certain Full-Requirements Sales Contracts" special item for the periods ended September 30, 2010.

	Three Months	Nine Months
Full-requirement sales contracts monetized (a)	$ 32	$ (28)
Economic activity related to the full-requirement sales contracts monetized	(79)	(146)
Monetization of certain full-requirement sales contracts, pre-tax (b)	$ (47)	$ (174)
Monetization of certain full-requirement sales contracts, after-tax	$ (27)	$ (102)

(a) See "Commodity Price Risk (Non-trading) - Monetization of Certain Full-Requirement Sales Contracts" in Note 14 to the Financial Statements for additional information.
(b) The three and nine-month periods include unrealized losses of $208 million and $335 million, which are reflected in "Wholesale energy marketing - Unrealized economic activity" and "Energy purchases - Unrealized economic activity" on the Statement of Income. Both periods include net realized gains of $161 million, which are reflected in "Wholesale energy marketing - Realized" and "Energy purchases - Realized" on the Statement of Income. This economic activity will continue to be realized through May 2013.

Outlook

Excluding special items, earnings are expected to be lower in 2011, compared with 2010, as a result of lower energy margins driven by lower Eastern energy and capacity prices, higher average fuel costs and the turbine blade replacement outages at the Susquehanna nuclear plant, as well as higher income taxes and higher operation and maintenance expense.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2 and Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business," and "Item 1A Risk Factors" in PPL's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measures

The following discussion includes financial information prepared in accordance with GAAP, as well as three non-GAAP financial measures: "Kentucky Gross Margins," "Pennsylvania Gross Delivery Margins" and "Unregulated Gross Energy Margins." These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL believes that these measures provide additional criteria to make investment decisions.

These performance measures are used, in conjunction with other information, internally by senior management and the Board of Directors to manage the Kentucky Regulated, Pennsylvania Regulated and Supply segment operations, analyze each respective segment's actual results compared to budget and, in certain cases, to measure certain corporate financial goals used in determining variable compensation.

PPL's three non-GAAP financial measures include:

- "Kentucky Gross Margins" is a single financial performance measure of the Kentucky Regulated segment's electricity generation, transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expense and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. These mechanisms allow for recovery of certain expenses, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from the Kentucky Regulated segment's operations.

- "Pennsylvania Gross Delivery Margins" is a single financial performance measure of the Pennsylvania Regulated segment's electric delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," which is primarily Act 129 costs, and in "Taxes, other than income," which is primarily gross receipts tax. This performance measure includes PLR energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "PLR intersegment Utility revenue (expense)" in the table below. These mechanisms allow for recovery of certain expenses; therefore, certain expenses and revenues offset with minimal impact on earnings. As a result, this measure represents the net revenues from the Pennsylvania Regulated segment's electric delivery operations.

- "Unregulated Gross Energy Margins" is a single financial performance measure of the Supply segment's competitive energy non-trading and trading activities. In calculating this measure, the Supply segment's energy revenues, which include operating revenues associated with certain Supply segment businesses that are classified as discontinued operations, are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges, gross receipts tax, which is recorded in "Taxes, other than income," and operating expenses associated with certain Supply segment businesses that are classified as discontinued operations. This performance measure is relevant to PPL due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant swings in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Wholesale energy marketing" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are reflected in "PLR intersegment Utility revenue (expense)" in the table below. PPL excludes from "Unregulated Gross Energy Margins" the Supply segment's energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of PPL's competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Also included in this energy-related economic activity is the ineffective portion of qualifying cash flow hedges, the monetization of certain full-requirement sales contracts and premium amortization associated with options. This economic activity is deferred, with the exception of the full-requirement sales contracts that were monetized, and included in unregulated gross energy margins over the delivery period that was hedged or upon realization.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to PPL's three non-GAAP financial measures for the periods ended September 30.

	2011 Three Months					2010 Three Months				
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues										
Utility	$ 734	$ 454		$ 487 (c)	$ 1,675		$ 570		$ 162 (c)	$ 732
PLR intersegment Utility revenue (expense) (d)		(5)	$ 5				(71)	$ 71		
Unregulated retail electric and gas			186	3	189			108	8	116
Wholesale energy marketing										
Realized			897	10 (e)	907			916	276 (e)	1,192
Unrealized economic activity				216 (f)	216				52 (f)	52
Net energy trading margins			(7)		(7)			(20)		(20)
Energy-related businesses				140	140				107	107
Total Operating Revenues	734	449	1,081	856	3,120		499	1,075	605	2,179
Operating Expenses										
Fuel	245		338	20 (g)	603			340	(18) (g)	322
Energy purchases										
Realized	32	171	119	40 (e)	362		229	68	89 (e)	386
Unrealized economic activity				176 (f)	176				300 (f)	300
Other operation and maintenance	26	30		679	735		25	7	334	366
Depreciation	12			240	252				127	127
Taxes, other than income		24	8	58	90		29	2	25	56
Energy-related businesses				135	135				100	100
Intercompany eliminations		(1)	1				(1)	1		
Total Operating Expenses	315	224	466	1,348	2,353		282	418	957	1,657
Discontinued operations								22	(22) (h)	
Total	$ 419	$ 225	$ 615	$ (492)	$ 767		$ 217	$ 679	$ (374)	$ 522

	2011 Nine Months					2010 Nine Months				
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues										
Utility	$ 2,139	$ 1,444		$ 1,112 (c)	$ 4,695		$ 1,901		$ 537 (c)	$ 2,438
PLR intersegment Utility revenue (expense) (d)		(15)	$ 15				(250)	$ 250		
Unregulated retail electric and gas			509	8	517			305	16	321
Wholesale energy marketing										
Realized			2,635	42 (e)	2,677			3,481	301 (e)	3,782
Unrealized economic activity				229 (f)	229				(190) (f)	(190)
Net energy trading margins			14		14			(4)		(4)
Energy-related businesses				387	387				311	311
Total Operating Revenues	2,139	1,429	3,173	1,778	8,519		1,651	4,032	975	6,658
Operating Expenses										
Fuel	666		872	(46) (g)	1,492			829	(19) (g)	810
Energy purchases										
Realized	179	591	496	201 (e)	1,467		848	1,198	86 (e)	2,132
Unrealized economic activity				49 (f)	49				418 (f)	418
Other operation and maintenance	67	77	13	1,884	2,041		70	20	1,139	1,229
Depreciation	37			660	697				376	376
Taxes, other than income		77	22	139	238		101	8	72	181
Energy-related businesses				368	368				288	288
Intercompany eliminations		(9)	3	6			(5)	2	3	
Total Operating Expenses	949	736	1,406	3,261	6,352		1,014	2,057	2,363	5,434
Discontinued operations			12	(12) (h)				68	(68) (h)	
Total	$ 1,190	$ 693	$ 1,779	$ (1,495)	$ 2,167		$ 637	$ 2,043	$ (1,456)	$ 1,224

(a) Represents amounts that are excluded from Margins.
(b) As reported on the Statement of Income.

(c) Primarily represents WPD's utility revenue.
(d) Primarily related to PLR supply sold by PPL EnergyPlus to PPL Electric.
(e) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements. For the three and nine months ended September 30, 2011, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" include a net pre-tax gain of $6 million and $17 million related to the amortization of option premiums and a net pre-tax loss of $40 million and $184 million related to the monetization of certain full-requirement sales contracts. The three and nine months ended September 30, 2010 include a net pre-tax gain of $21 million and $46 million related to the amortization of option premiums and a net pre-tax gain of $161 million for both periods related to the monetization of certain full-requirement sales contracts.
(f) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements.
(g) 2011 includes credits for the spent nuclear fuel litigation settlement recorded in the three and nine months ended September 30, 2011 of $6 million and $56 million and economic activity related to fuel. 2010 includes economic activity related to fuel.
(h) Represents the net of certain revenues and expenses associated with certain businesses that are classified as discontinued operations. These revenues and expenses are not reflected in "Operating Income" on the Statements of Income.

Changes in Non-GAAP Financial Measures

The following table shows PPL's three non-GAAP financial measures for the periods ended September 30 as well as the change between periods. The factors that gave rise to the changes are described below the table.

	Three Months			Nine Months		
	2011	2010	Change	2011	2010	Change
Kentucky Gross Margins	$ 419		$ 419	$ 1,190		$ 1,190
PA Gross Delivery Margins by Component						
Distribution	$ 179	$ 170	$ 9	$ 560	$ 506	$ 54
Transmission	46	47	(1)	133	131	2
Total	$ 225	$ 217	$ 8	$ 693	$ 637	$ 56
Unregulated Gross Energy Margins by Region						
Non-trading						
Eastern U.S.	$ 530	$ 611	$ (81)	$ 1,502	$ 1,788	$ (286)
Western U.S.	92	88	4	263	259	4
Net energy trading	(7)	(20)	13	14	(4)	18
Total	$ 615	$ 679	$ (64)	$ 1,779	$ 2,043	$ (264)

Kentucky Gross Margins

PPL acquired LKE on November 1, 2010. Margins for the three and nine months ended September 30, 2011 are included in PPL's results with no comparable amounts for 2010.

Pennsylvania Gross Delivery Margins

Distribution

The approved distribution rate case increased rates approximately 1.6% effective January 1, 2011, which improved distribution margins by $15 million and $50 million for the three and nine months ended September 30, 2011, compared with the same periods in 2010. Weather also had a $5 million favorable impact on the nine months ended September 30, 2011, compared with the same period in 2010. Weather-related variances for PPL Electric are calculated based on a ten-year historical average.

The three and nine months ended September 30, 2011 also reflect a $7 million charge to reduce a portion of the transmission service charge regulatory asset associated with a 2005 undercollection that was not included in any subsequent rate reconciliations filed with the PUC. PPL Electric plans to seek PUC approval to recover this amount. However, management cannot assert at the present time that it is probable that the previously recorded regulatory asset will be recovered. The regulatory asset will be reinstated should the PUC approve recovery of these costs.

Unregulated Gross Energy Margins

Eastern U.S.

Changes in Eastern U.S. non-trading margins for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Lower baseload energy and capacity prices	$ (65)	$ (142)
Coal and hydro generation volume	2	(47)
2010 monetization of certain deals that rebalanced the business and portfolio	(14)	(41)
Impact of non-core generation facilities sold in the first quarter of 2011	(21)	(37)
Nuclear generation volume (a)	20	(35)
Higher coal prices	(16)	(31)
Lower intermediate/peaking capacity prices, partially offset by higher generation volumes in the first half of 2011	(18)	(18)
Full-requirement sales contracts driven by contracts monetized in 2010 and reduced shopping in 2011	23	74
Other	8	(9)
	$ (81)	$ (286)

(a) Volumes were higher for the three-month period as the result of the final uprate at Susquehanna Unit 2. Volumes were lower for the nine-month period primarily as a result of the dual-unit turbine blade replacement outages beginning in May 2011.

Net Energy Trading Margins

Net energy trading margins increased during the three and nine months ended September 30, 2011, compared with the same periods in 2010, as a result of higher margins on power and gas positions of $13 million and $18 million.

Utility Revenues

Changes in utility revenues for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Domestic:		
PPL Electric		
Decrease in energy revenue due to customers selecting alternative suppliers (a)	$ (134)	$ (522)
Price increase related to the distribution rate case effective January 1, 2011	15	50
Other	3	15
Total	(116)	(457)
LKE (b)	736	2,140
Total Domestic	620	1,683
U.K.:		
PPL WW		
Price increases (c)	24	45
Change in recovery of allowed revenues (d)	(2)	9
Foreign currency exchange rates	12	25
Other	(3)	(4)
Total PPL WW	31	75
WPD Midlands (b)	292	499
Total U.K.	323	574
Total	$ 943	$ 2,257

(a) In 2011, customers continue to select alternative suppliers to provide their energy needs. This decrease in energy revenue has a minimal impact on earnings as the cost of providing this energy is passed through to the customer with no additional mark-up. These revenues are offset with purchases in "Pennsylvania Gross Delivery Margins."

(b) There are no comparable amounts in the 2010 periods as LKE was acquired in November 2010 and WPD Midlands was acquired in April 2011.

(c) The three- and nine-month periods were impacted by price increases effective April 1, 2011. The nine-month period was also impacted by price increases effective April 1, 2010.

(d) The nine-month period was higher due to a $9 million unfavorable impact on regulatory allowed revenues associated with a charge recorded in the first quarter of 2010, primarily resulting from changes in network electricity line loss assumptions.

Other Operation and Maintenance

Changes in other operation and maintenance expense for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Domestic:		
LKE (a)	$ 187	$ 566
Montana hydroelectric litigation (b)		(47)
PUC reportable storm costs, net of insurance recoveries	8	20
Susquehanna nuclear plant costs (c)	(5)	23
Impacts from emission allowances (d)	(3)	(13)
Disposition of RECs (e)	(3)	5
Other	12	8

	Three Months	Nine Months
U.K.:		
PPL WW (f)	9	14
WPD Midlands (a) (g)	164	236
Total	$ 369	$ 812

(a) There are no comparable amounts in the 2010 periods as LKE was acquired in November 2010 and WPD Midlands was acquired in April 2011.
(b) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. As a result, in the first quarter of 2010, PPL Montana recorded a pre-tax charge of $56 million, representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. The portion of the total charge recorded to other operation and maintenance totaled $49 million. PPL Montana continues to accrue rental compensation. See Note 10 to the Financial Statements for additional information.
(c) The nine-month period was $23 million higher primarily due to increased costs of $10 million from the dual-unit turbine blade replacement outages, $9 million of higher payroll-related costs and $8 million from the refueling outage.
(d) The nine-month period was $13 million lower primarily due to $2 million of impairment charges in 2011 compared with $15 million of impairment charges in 2010.
(e) The three and nine-month periods in 2011 include impairment charges of $1 million and $5 million.
(f) The three and nine-month periods were higher primarily due to higher pension costs resulting primarily from increased amortization of actuarial losses.
(g) The three and nine-month periods include $84 million of severance compensation, early retirement deficiency costs and outplacement services for employees separating from the WPD Midlands companies as a result of a reorganization to transition the WPD Midlands companies to the same operating structure as WPD (South West) and WPD (South Wales).

Depreciation

Changes in depreciation expense for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Additions to PP&E	$ 8	$ 17
Foreign currency exchange rates	2	4
LKE (a) (b)	84	249
WPD Midlands (b)	31	51
Total	$ 125	$ 321

(a) The three and nine-month periods include $13 million and $35 million of depreciation expense related to plant additions at TC2 and E.W. Brown.
(b) There are no comparable amounts in the 2010 periods as LKE was acquired in November 2010 and WPD Midlands was acquired in April 2011.

Taxes, Other Than Income

Changes in taxes, other than income for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Domestic property tax (a)	$ (3)	$ (8)
LKE (b)	10	28
WPD Midlands (b)	23	38
Other	4	(1)
Total	$ 34	$ 57

(a) The decrease for the three and nine month periods is primarily due to the amortization of the PURTA refund. This is included in "Pennsylvania Gross Delivery Margins."
(b) There are no comparable amounts in the 2010 periods as LKE was acquired in November 2010 and WPD Midlands was acquired in April 2011.

Other Income (Expense) - net

The $63 million increase in other income (expense) - net for the three months ended September 30, 2011 compared with the same period in 2010 was primarily attributable to:

- a $22 million gain on the accelerated amortization of the fair value adjustment to the debt recorded in connection with previously settled fair value hedges. The accelerated amortization was the result of the July 2011 redemption of PPL Electric's 7.125% Senior Secured Bonds due 2013; and
- $29 million of net losses reclassified from AOCI into earnings in 2010 resulting from the discontinuation of interest rate swaps entered into in anticipation of a debt issuance by PPL Energy Supply.

In addition to the factors described above, the $16 million increase in other income (expense) - net for the nine months ended September 30, 2011 compared with the same period in 2010 was also attributable to:

- a $10 million increase in gains from economic foreign currency exchange contracts;

- $11 million of LKE other acquisition-related costs recorded in 2010;
- $57 million of WPD Midlands other acquisition-related costs in 2011, including U.K. stamp duty tax; and
- a $57 million foreign currency loss related to the repayment of the 2011 Bridge Facility borrowing, offset by a $55 million gain on foreign currency forward contracts that hedged the repayment of such borrowings.

Interest Expense

Changes in interest expense for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
2011 Bridge Facility costs related to the acquisition of WPD Midlands		$ 43
2010 Bridge Facility costs related to the acquisition of LKE	$ (45)	(67)
2010 Equity Units (a)	(1)	29
2011 Equity Units (b)	12	22
LKE (c)	36	108
WPD Midlands (c) (d)	54	96
Other short-term and long-term debt interest expense	2	20
Interest expense on the March 2010 WPD (South Wales) and WPD (South West) debt issuances		11
Hedging activity	8	15
Amortization of debt discounts, premiums and issuance costs (e)	12	12
Capitalized interest	(4)	(13)
Montana hydroelectric litigation (f)		(6)
Other	(5)	(5)
Total	$ 69	$ 265

(a) Interest related to the June 2010 issuance to support the November 2010 LKE acquisition.
(b) Interest related to the April 2011 issuance to support the April 2011 WPD Midlands acquisition.
(c) There are no comparable amounts in the 2010 periods as LKE was acquired in November 2010 and WPD Midlands was acquired in April 2011.
(d) 2011 Bridge Facility costs of $22 million are included in "2011 Bridge Facility costs related to the acquisition of WPD Midlands" above.
(e) The three and nine-month periods include the acceleration of deferred financing fees of $7 million due to the July 2011 redemption by PPL Energy Supply of $250 million of 7.00% Senior Notes due 2046.
(f) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. As a result, in the first quarter of 2010, PPL Montana recorded $7 million of interest expense on rental compensation covered by the court decision. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the Supreme Court granted PPL Montana's petition. Oral argument is scheduled for December 2011. PPL Montana continues to accrue interest expense on the rental compensation covered by the court decision. See Note 10 to the Financial Statements for additional information.

Income Taxes

Changes in income taxes for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Higher pre-tax book income	$ 5	$ 96
State valuation allowance adjustments (a)		19
Domestic manufacturing deduction (b)	12	24
Federal and state tax reserve adjustments (c)	56	60
U.S. income tax on foreign earnings net of foreign tax credit	(2)	(11)
U.K. Finance Act adjustments (d)	(15)	(15)
Foreign losses resulting from restructuring (e)	27	52
Foreign tax reserve adjustments (e)	(24)	(46)
Health Care Reform		(8)
LKE (f)	52	125
WPD Midlands (d) (f)	(36)	(26)
Intercompany interest on WPD financing entities	5	11
Other	11	(4)
Total	$ 91	$ 277

(a) Primarily reflects the impact of Pennsylvania Department of Revenue interpretive guidance issued in February 2011 on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. Due to the reduction in projected Pennsylvania taxable income for tax years 2011 and 2012 related to the 100% bonus depreciation deduction, PPL adjusted its deferred tax valuation allowances for Pennsylvania net operating losses. As a result, during the nine months ended September 30, 2011 PPL recorded $11 million of deferred income tax expense.
(b) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation eliminates the estimated income tax benefit related to the domestic manufacturing deduction in 2011.
(c) In 1997, the U.K. imposed a Windfall Profits Tax on privatized utilities, including WPD. In September 2010, the U.S. Tax Court ruled in PPL's favor in a pending dispute with the IRS, concluding that the U.K. Windfall Profits Tax is a creditable tax for U.S. tax purposes. As a result and with the finalization of other issues, PPL recorded a $42 million tax benefit which impacted federal and state income tax reserves and related deferred income taxes during the third quarter of 2010. In January 2011, the IRS appealed the U.S. Tax Court's decision to the U.S. Court of Appeals for the Third Circuit. See Note 5 to the Financial Statements for additional information.

In July 2010, the U.S. Tax Court ruled in PPL's favor in a pending dispute with the IRS, concluding that street lighting assets of PPL Electric are depreciable for tax purposes over seven years. As a result, PPL recorded a $7 million tax benefit to federal and state income tax reserves and related deferred income taxes in the third quarter of 2010.

(d) The U.K.'s Finance Act of 2011, enacted in July 2011, included reductions in the U.K. statutory income tax rate. The statutory income tax rate was reduced from 27% to 26% retroactive to April 1, 2011 and will be reduced from 26% to 25 % effective April 1, 2012. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit of $69 million in the third quarter of 2011. WPD Midlands' portion of the deferred tax benefit is $35 million.

The U.K.'s Finance Act of 2010, enacted in July 2010, included a reduction in the U.K. statutory income tax rate. Effective April 1, 2011, the statutory income tax rate was reduced from 28% to 27%. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit of $19 million in the third quarter of 2010.

(e) During the three and nine months ended September 30, 2010, PPL recorded $27 million and $52 million of foreign tax benefits and related adjustments to foreign tax reserves of $24 million and $46 million in conjunction with losses resulting from restructuring in the U.K. These losses offset tax on a deferred gain from a prior year sale of WPD's supply business. See Note 5 to the Financial Statements for additional information.

(f) There are no comparable amounts in the 2010 periods as LKE was acquired in November 2010 and WPD Midlands was acquired in April 2011.

See Note 5 to the Financial Statements for additional information on income taxes.

Discontinued Operations

Income (Loss) from Discontinued Operations (net of income taxes) increased by $53 million and $40 million for the three and nine months ended September 30, 2011, compared with the same periods in 2010. The increases were primarily due to after-tax impairment charges recorded in the third quarter of 2010 totaling $62 million related to the impairment of assets associated with certain non-core generation facilities that were written down to their estimated fair value (less cost to sell). These facilities were sold in March 2011. See "Discontinued Operations" in Note 8 to the Financial Statements for additional information.

Financial Condition

Liquidity and Capital Resources

PPL had the following at:

	September 30, 2011	December 31, 2010
Cash and cash equivalents	$ 1,511	$ 925
Short-term investments (a)	16	163
	$ 1,527	$ 1,088
Short-term debt	$ 428	$ 694

(a) Balance at December 31, 2010 represents tax-exempt revenue bonds issued by Louisville/Jefferson County, Kentucky on behalf of LG&E that were purchased from the remarketing agent in 2008. Such bonds were remarketed to unaffiliated investors in January 2011. See Note 17 to the Financial Statements for further discussion.

The $586 million increase in PPL's cash and cash equivalents position was primarily the net result of:

- proceeds of $5.2 billion from the issuance of long-term debt;
- proceeds of $2.3 billion from the issuance of common stock;
- cash provided by operating activities of $1.8 billion;
- proceeds from the sale of certain non-core generation facilities of $381 million;
- the payment of $5.8 billion for the acquisition of WPD Midlands;
- capital expenditures of $1.7 billion;
- the retirement of $708 million of long-term debt:
- the payment of $543 million of common stock dividends;
- a net decrease in short-term debt of $322 million; and
- the payment of $84 million of debt issuance and credit facility costs.

PPL's cash provided by operating activities increased by $150 million for the nine months ended September 30, 2011 compared with the same period in 2010. The increase was the net effect of:

- operating cash provided by LKE, $674 million, and WPD Midlands, $206 million;
- cash from components of working capital, $56 million (excluding LKE and Midlands); partially offset by
- reduction in cash from counter party collateral, $442 million;
- lower gross energy margins, $154 million after-tax; and
- proceeds from monetizing certain full-requirements energy contracts in 2010, $249 million.

Credit Facilities

At September 30, 2011, PPL's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
PPL Energy Supply Credit Facilities (a)	$ 3,200	$ 250	$ 208	$ 2,742
PPL Electric Credit Facilities (b)	350		13	337
LG&E Credit Facility (c)	400			400
KU Credit Facilities (c)(d)	598		198	400
Total Domestic Credit Facilities (e)	$ 4,548	$ 250	$ 419	$ 3,879
PPL WW Credit Facility	£ 150	£ 111	n/a	£ 39
WPD (South West) Credit Facility	210		n/a	210
WPD (East Midlands) Credit Facility (f)	300		£ 70	230
WPD (West Midlands) Credit Facility (f)	300		71	229
Total WPD Credit Facilities (g)	£ 960	£ 111	£ 141	£ 708

(a) In March 2011, PPL Energy Supply's $300 million Structured Credit Facility expired. PPL Energy Supply's obligations under this facility were supported by a $300 million letter of credit issued on PPL Energy Supply's behalf under a separate, but related $300 million 5-year credit agreement, which also expired in March 2011.

(b) Committed capacity includes a $150 million credit facility related to an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary pledges these assets to secure loans of up to an aggregate of $150 million from a commercial paper conduit sponsored by a financial institution. At September 30, 2011, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under the facility was limited to $86 million. In July 2011, PPL Electric and the subsidiary extended the expiration date of the credit agreement related to the asset-backed commercial paper program to July 2012.

(c) In June 2011, LG&E and KU each amended its respective Syndicated Credit Facility such that the fees and the spread to benchmark interest rates for borrowings depend upon the respective company's senior secured long-term debt rating rather than the senior unsecured debt rating.

(d) In April 2011, KU entered into a new $198 million letter of credit facility that has been used to issue letters of credit to support outstanding tax exempt bonds. The facility matures in April 2014. In August 2011, KU amended its letter of credit facility such that the fees depend upon KU's senior secured long-term debt rating rather than the senior unsecured debt rating.

(e) Total borrowings outstanding under PPL's domestic credit facilities decreased on a net basis by $263 million since December 31, 2010.

In October 2011, PPL Energy Supply, PPL Electric, LG&E and KU each amended its respective Syndicated Credit Facility. The amendments included extending the expiration dates from December 2014 to October 2016. Under these facilities, PPL Energy Supply, PPL Electric, LG&E and KU each continue to have the ability to make cash borrowings and to request the lenders to issue letters of credit.

The commitments under PPL's domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 9% of the total committed capacity.

(f) In April 2011, following the completion of the acquisition of WPD Midlands, WPD (East Midlands) and WPD (West Midlands) each entered into a £300 million 5-year syndicated credit facility. Under the facilities, WPD (East Midlands) and WPD (West Midlands) each have the ability to make cash borrowings and to request the lenders to issue up to £80 million of letters of credit in lieu of borrowing.

(g) At September 30, 2011, the unused capacity of WPD's credit facilities was approximately $1.3 billion.

The commitments under WPD's credit facilities are provided by a diverse bank group, with no one bank providing more than 17% of the total committed capacity.

See Note 7 to the Financial Statements for further discussion of PPL's credit facilities.

Commercial Paper

PPL Electric maintains a commercial paper program for up to $200 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility. PPL Electric had no commercial paper outstanding at September 30, 2011.

In October 2011, PPL Energy Supply re-activated its $500 million commercial paper program to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At November 4, 2011, PPL Energy Supply had $400 million of commercial paper outstanding at a weighted-average interest rate of approximately 0.51%, which was used to partially fund the repayment of PPL Energy Supply's 6.40% Senior Notes upon maturity in November 2011. PPL Energy Supply expects to refinance outstanding commercial paper on a long-term basis at a future date, subject to market conditions.

2011 Bridge Facility

In March 2011, concurrently, and in connection with entering into the agreement to acquire WPD Midlands, PPL entered into a commitment letter with certain lenders pursuant to which the lenders committed to provide PPL with 364-day unsecured bridge financing of up to £3.6 billion solely to (i) fund the acquisition and (ii) pay certain fees and expenses in connection with the acquisition. The bridge financing commitment was subsequently syndicated to a group of banks, including the initial commitment lenders. Upon the syndication of the commitment, in March 2011, PPL Capital Funding and PPL WEM, as borrowers, and PPL, as guarantor, entered into the 2011 Bridge Facility.

On April 1, 2011, concurrent with the closing of the WPD Midlands acquisition, PPL Capital Funding borrowed an aggregate of £1.75 billion and PPL WEM borrowed £1.85 billion under the 2011 Bridge Facility. The borrowings bore interest at approximately 2.62%. See Note 8 to the Financial Statements for additional information on the acquisition.

In accordance with the terms of the 2011 Bridge Facility, PPL Capital Funding's borrowings of £1.75 billion were repaid with approximately $2.8 billion of proceeds received from PPL's issuance of common stock and 2011 Equity Units in April 2011, as discussed in "Long-term Debt and Equity Securities" below. Also in April 2011, PPL WEM repaid £650 million of its 2011 Bridge Facility borrowing. Such repayment was funded primarily with proceeds received from PPL WEM's issuance of senior notes, which is also discussed below. In May 2011, PPL WEM repaid the remaining £1.2 billion of borrowings outstanding under the 2011 Bridge Facility, primarily with the proceeds from senior notes issued by WPD (East Midlands) and WPD (West Midlands), also discussed below.

In anticipation of the repayment of a portion of the GBP-denominated borrowings under the 2011 Bridge Facility with U.S. dollar-denominated proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of U.S. dollar-denominated senior notes, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. See Note 14 to the Financial Statements for further discussion.

Long-term Debt and Equity Securities

PPL's long-term debt and equity securities activity through September 30, 2011 was:

	Debt Issuances (a)	Debt Retirements	Equity Issuances
PPL Common Stock			$ 2,328
PPL Capital Funding Junior Subordinated Notes	$ 978		
PPL Energy Supply Senior Unsecured Notes (b)		$ (250)	
PPL Electric First Mortgage Bonds (c)	645	(458)	
LKE Senior Unsecured Notes	250		
PPL WEM Senior Unsecured Notes	959		
WPD (West Midlands) Senior Unsecured Notes	1,282		
WPD (East Midlands) Senior Unsecured Notes	967		
WPD (East Midlands) Index-linked Notes	164		
Total Cash Flow Impact	$ 5,245	$ (708)	$ 2,328
Assumed through consolidation - WPD Midlands acquisition:			
WPD (East Midlands) Senior Unsecured Notes (d)	$ 418		
WPD (West Midlands) Senior Unsecured Notes (d)	412		
Total Assumed	$ 830		
Non-cash Exchanges (e):			
LKE Senior Unsecured Notes	$ 875	$ (875)	
LG&E First Mortgage Bonds	535	(535)	
KU First Mortgage Bonds	1,500	(1,500)	
Total Exchanged	$ 2,910	$ (2,910)	
Net Increase	$ 5,367		$ 2,328

PPL's long-term debt and equity securities activity since September 30, 2011 was:

	Debt Issuances	Debt Retirements	Equity Issuances
PPL Energy Supply Senior Unsecured Notes (f)		$ (500)	
LG&E and KU Capital LLC Medium Term Notes (f)		(2)	
Total Cash Flow Impact		$ (502)	
Net Decrease	$ (502)		

(a) Issuances are net of pricing discounts, where applicable and exclude the impact of debt issuance costs.

(b) Senior unsecured notes were redeemed at par prior to their 2046 maturity date.
(c) Retirement reflects amount paid to redeem $400 million aggregate principal amount of first mortgage bonds prior to their 2013 maturity date.
(d) Reflects fair value adjustments resulting from the preliminary purchase price allocation. The principal amount of each issuance is £250 million, which equated to approximately $400 million at the time of closing.
(e) In April 2011, LKE, LG&E and KU each filed a 2011 Registration Statement with the SEC related to offers to exchange securities issued in November 2010 in transactions not registered under the Securities Act of 1933 with similar but registered securities. The 2011 Registration Statements became effective in June 2011 and the exchanges were completed in July 2011, with substantially all securities being exchanged.
(f) Notes were retired upon maturity.

In July 2011, PPL Electric entered into a supplemental indenture that contains prospective amendments to its 2001 Mortgage Indenture, including amendments to reduce the amount of first mortgage bonds issuable on the basis of property additions from 100% of the cost or fair value (whichever is less, as determined in accordance with the terms of the indenture) of such property additions to 66-2/3% of such cost or fair value. The amendments became effective in the third quarter of 2011.

At September 30, 2011, LKE's tax-exempt revenue bonds that are in the form of auction rate securities and total $231 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the nine months ended September 30, 2011, the weighted-average rate on LG&E's and KU's auction rate bonds in total was 0.27%.

See Note 7 to the Financial Statements for additional information about long-term debt and equity securities.

Common Stock Dividends

In August 2011, PPL declared its quarterly common stock dividend, payable October 1, 2011, at 35.0 cents per share (equivalent to $1.40 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt and preferred securities of PPL and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL and its subsidiaries are based on information provided by PPL and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in PPL's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets.

In prior periodic reports, PPL described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, PPL is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to PPL's ratings, but without stating what ratings have been assigned to PPL or its subsidiaries, or their securities. The ratings assigned by the rating agencies to PPL and its subsidiaries and their respective securities may be found, without charge, on each of the respective rating agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of the then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

Moody's affirmed all of the ratings for PPL and all of its rated subsidiaries.

S&P revised the outlook for PPL, PPL Capital Funding, PPL Energy Supply, PPL Electric, LKE, LG&E, KU, PPL WW, WPD (South West) and WPD (South Wales), affirmed the issuer and senior unsecured ratings of PPL WW, and lowered the following ratings:

- the issuer rating of PPL;
- the senior unsecured and junior subordinated ratings of PPL Capital Funding;
- the issuer and senior unsecured ratings of PPL Energy Supply;
- the issuer, senior secured, preference stock, and commercial paper ratings of PPL Electric;

- the issuer and senior unsecured ratings of LKE;
- the issuer, senior secured ratings, and short-term ratings of LG&E;
- the issuer, senior secured ratings, and short-term ratings of KU;
- the issuer and senior unsecured ratings of WPD (South West); and
- the issuer and senior unsecured ratings of WPD (South Wales).

Fitch affirmed all of the ratings for PPL, PPL Capital Funding, PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

In April 2011, Moody's and S&P took the following actions following the completion of the acquisition of WPD Midlands.

Moody's:
- lowered the issuer and senior unsecured debt ratings of WPD (East Midlands) and WPD (West Midlands);
- affirmed the short-term issuer rating of WPD (East Midlands); and
- assigned a senior unsecured rating and an outlook to PPL WEM.

S&P:
- lowered the issuer and senior unsecured debt ratings of WPD (East Midlands) and WPD (West Midlands);
- assigned issuer ratings to PPL WEM;
- raised the issuer rating of PPL WW;
- revised the outlook for PPL and all of its rated subsidiaries;
- raised the short-term ratings of LG&E, KU, WPD (East Midlands), WPD (West Midlands), PPL WEM, PPL WW, WPD (South West), WPD (South Wales) and PPL Electric; and
- affirmed all of the long-term ratings for PPL and its rated subsidiaries.

In May 2011, S&P downgraded the long-term rating of four series of pollution control bonds issued on behalf of KU by one notch in connection with the substitution of the letters of credit enhancing these four bonds.

Also in May 2011, Fitch affirmed its rating and maintained its outlook for PPL Montana's Pass Through Certificates due 2020.

In July 2011, S&P upgraded the senior secured rating for PPL Electric's first mortgage bonds following the execution of a supplemental indenture that provided for prospective amendments to PPL Electric's 2001 Mortgage Indenture, as discussed in "Long-term Debt and Equity Securities" above.

In September 2011, Moody's affirmed the following ratings:
- the issuer ratings for PPL, LG&E, and KU;
- the senior unsecured ratings for PPL Energy Supply and PPL Capital Funding; and
- all of the ratings for LKE.

Also in September 2011, S&P assigned a short-term rating to PPL Energy Supply's commercial paper program.

In October 2011, Moody's and Fitch also assigned a short-term rating to PPL Energy Supply's commercial paper program in support of PPL Energy Supply's re-opening of the program.

In October 2011, Fitch affirmed all of the ratings for PPL WW, WPD (South West), and WPD (South Wales).

Ratings Triggers

PPL and its subsidiaries have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements and interest rate and foreign currency instruments, which contain provisions requiring PPL and its subsidiaries to post additional collateral, or permitting the counterparty to terminate the contract, if PPL's or the subsidiaries' credit ratings were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at September 30, 2011. At September 30, 2011, if PPL's or its subsidiaries' credit ratings had been below investment grade, the maximum amount that PPL would have been required to post as additional collateral to counterparties was $492 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations and interest rate and foreign currency contracts.

Capital Expenditures

The table below shows PPL's capital expenditure projections at September 30, 2011.

	Projected				
	2011	2012	2013	2014	2015
Construction expenditures (a) (b)					
Generating facilities	$ 762	$ 640	$ 553	$ 360	$ 492
Transmission and distribution facilities	1,401	1,925	2,248	2,215	2,071
Environmental (c)	211	764	1,239	1,212	888
Other	124	173	133	122	138
Total Construction Expenditures	2,498	3,502	4,173	3,909	3,589
Nuclear fuel	152	159	161	158	160
Total Capital Expenditures	$ 2,650	$ 3,661	$ 4,334	$ 4,067	$ 3,749

(a) Construction expenditures include capitalized interest and AFUDC, which are expected to be approximately $320 million for the years 2011 through 2015.
(b) Includes expenditures for certain intangible assets.
(c) Includes approximately $700 million of LKE's currently estimable costs related to replacement generation units due to EPA regulations not recoverable through the ECR mechanism. LKE expects to recover these costs over a period equivalent to the related depreciable lives of the assets through base rates established by future rate cases.

PPL's capital expenditure projections for the years 2011 through 2015 total approximately $18.5 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table has been revised from that which was presented in PPL's 2010 Form 10-K for changes in estimates for LKE's environmental projects related to new and anticipated EPA compliance standards (actual costs may be significantly lower or higher depending on the final requirements; certain environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism) and expenditures to be made by the newly acquired WPD Midlands. See Note 8 to the Financial Statements for information on PPL's April 2011 acquisition of WPD Midlands.

For additional information on PPL's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL's 2010 Form 10-K.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about PPL's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

PPL segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL's generation assets, full-requirement sales contracts and retail activities. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. The net fair value of economic positions at September 30, 2011 and December 31, 2010 was a net liability of $218 million and $391 million. See Note 14 to the Financial Statements for additional information on economic activity.

To hedge the impact of market price volatility on PPL's energy-related assets, liabilities and other contractual arrangements, PPL both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL's non-trading commodity derivative contracts mature at various times through 2017.

The following table sets forth the change in net fair value of PPL's non-trading commodity derivative contracts for the periods ended September 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months Ended		Nine Months Ended	
	2011	2010	2011	2010
Fair value of contracts outstanding at the beginning of the period	$ 894	$ 1,303	$ 956	$ 1,280
Contracts realized or otherwise settled during the period	(100)	(96)	(237)	(330)
Fair value of new contracts entered into during the period	4	3	19	10
Changes in fair value attributable to changes in valuation techniques (a)				(23)
Other changes in fair value	46	144	106	417
Fair value of contracts outstanding at the end of the period	$ 844	$ 1,354	$ 844	$ 1,354

(a) In June 2010, PPL received market bids for certain full-requirement sales contracts that were monetized in early July. See Note 14 to the Financial Statements for additional information. At September 30, 2010, these contracts were valued based on the bids received (the market approach). In prior periods, the fair value of these contracts was measured using the income approach.

The following table segregates the net fair value of PPL's non-trading commodity derivative contracts at September 30, 2011, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

	Net Asset (Liability)				
Source of Fair Value	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Prices based on significant other observable inputs	$ 533	$ 272	$ 13		$ 818
Prices based on significant unobservable inputs	(8)	(13)	20	$ 27	26
Fair value of contracts outstanding at the end of the period	$ 525	$ 259	$ 33	$ 27	$ 844

PPL sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties with which it has energy contracts and other factors could affect PPL's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future.

Commodity Price Risk (Trading)

PPL's trading commodity derivative contracts mature at various times through 2015. The following table sets forth changes in the net fair value of PPL's trading commodity derivative contracts for the periods ended September 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Nine Months	
	2011	2010	2011	2010
Fair value of contracts outstanding at the beginning of the period	$ 15	$ 4	$ 4	$ (6)
Contracts realized or otherwise settled during the period	(10)	(8)	(7)	(8)
Fair value of new contracts entered into during the period	(2)	45	6	47
Other changes in fair value	4	(39)	4	(31)
Fair value of contracts outstanding at the end of the period	$ 7	$ 2	$ 7	$ 2

Unrealized gains of approximately $4 million will be reversed over the next three months as the transactions are realized.

The following table segregates the net fair value of trading commodity derivative contracts at September 30, 2011, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

Source of Fair Value	Net Asset (Liability) Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Prices based on significant other observable inputs	$ (4)	$ 11			$ 7
Fair value of contracts outstanding at the end of the period	$ (4)	$ 11			$ 7

VaR Models

A VaR model is utilized to measure commodity price risk in domestic gross energy margins for the non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's conservative hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the period was as follows.

	Trading VaR		Non-Trading VaR	
	Nine Months Ended September 30, 2011	Twelve Months Ended December 31, 2010	Nine Months Ended September 30, 2011	Twelve Months Ended December 31, 2010
95% Confidence Level, Five-Day Holding Period				
Period End	$ 3	$ 1	$ 5	$ 5
Average for the Period	2	4	5	7
High	4	9	7	12
Low	1	1	4	4

The trading portfolio includes all speculative positions, regardless of the delivery period. All positions not considered speculative are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at September 30, 2011.

Interest Rate Risk

PPL and its subsidiaries have issued debt to finance their operations, which exposes them to interest rate risk. PPL utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio, adjust the duration of its debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of PPL's debt portfolio due to changes in the absolute level of interest rates.

At September 30, 2011, PPL's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL is also exposed to changes in the fair value of its domestic and international debt portfolios. PPL estimated that a 10% decrease in interest rates at September 30, 2011 would increase the fair value of its debt portfolio by $632 million.

At September 30, 2011, PPL had the following interest rate hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)
Cash flow hedges			
Interest rate swaps (c)	$ 550	$ (62)	$ (12)
Cross-currency swaps (d)	1,262	49	(184)
Fair value hedges			
Interest rate swaps (e)	99	6	
Economic hedges			
Interest rate swaps (f)	179	(58)	(4)

(a) Includes accrued interest, if applicable.

(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
(c) PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any changes in the fair value of such cash flow hedges are recorded in equity. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at September 30, 2011 mature through 2022.
(d) PPL WEM, through PPL, and PPL WW use cross-currency swaps to hedge the interest payments and principal of their U.S. dollar-denominated senior notes with maturity dates ranging from May 2016 to December 2028. While PPL is exposed to changes in the fair value of these instruments, any change in the fair value of these instruments is recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in both interest rates and foreign currency exchange rates.
(e) PPL utilizes various risk management instruments to adjust the mix of fixed and floating interest rates in its debt portfolio. The change in fair value of these instruments, as well as the offsetting change in the value of the hedged exposure of the debt, is reflected in earnings. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at September 30, 2011 mature in 2047.
(f) PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any changes in the fair value of such economic hedges are recorded in regulatory assets and liabilities. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in interest rates.

Foreign Currency Risk

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. In addition, PPL's domestic operations may make purchases of equipment in currencies other than U.S. dollars.

PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including the risk associated with translating earnings and dividends for the U.K. affiliates, firm commitments, recognized assets or liabilities, other anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

At September 30, 2011, PPL had the following foreign currency hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)
Net investment hedges (b)	£ 65	$ 5	$ (10)
Economic hedges			
Earnings translation (c)	393	16	(53)

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
(b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP.
(c) To economically hedge the translation of expected income denominated in GBP to U.S. dollars, PPL enters into a combination of average rate forwards and average rate options to sell GBP. The forwards and options outstanding at September 30, 2011, have termination dates ranging from October 2011 through November 2012.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the Susquehanna nuclear plant. At September 30, 2011, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on the Balance Sheet for $594 million. The mix of securities is designed to provide returns sufficient to fund such decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its NDT policy statement. At September 30, 2011, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated $39 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL's 2010 Form 10-K for additional information.

Foreign Currency Translation

During 2011 and 2010, the GBP fluctuated in relation to the U.S. dollar. Changes in these exchange rates resulted in a foreign currency translation gain of $154 million for the nine months ended September 30, 2011, which primarily reflected a $242 million increase to PP&E offset by an increase of $88 million to net liabilities. Changes in these exchange rates resulted in a foreign currency translation loss of $83 million for the nine months ended September 30, 2010, which primarily reflected a $223 million reduction to PP&E offset by a reduction of $140 million to net liabilities. These adjustments, net of tax, resulting from translation are recorded in AOCI.

Related Party Transactions

PPL is not aware of any material ownership interests or operating responsibility by senior management of PPL, PPL Energy Supply, PPL Electric, LKE, LG&E or KU in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with PPL. See Note 11 to the Financial Statements for additional information on related party transactions between PPL affiliates.

Acquisitions, Development and Divestitures

PPL continuously evaluates potential acquisitions, divestitures and development projects as opportunities arise or are identified. Development projects are continuously reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options.

In April 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of WPD Midlands.

In the third quarter of 2011, the Susquehanna Unit 2 uprate, representing the final phase of the project to increase the nuclear plant's generation capacity, was completed and is projected to yield an additional 50 MW.

In September 2011, LG&E and KU entered into an Asset Purchase Agreement for the purchase of three existing natural gas simple cycle combustion units in LaGrange, Kentucky, aggregating approximately 495 MW, plus limited associated contractual arrangements required for operation of the plant (collectively, the Bluegrass Plant), for a purchase price of $110 million. In conjunction with a September 2011 CPCN filing, LG&E and KU anticipate retiring three older coal-fired electric generating stations to meet new, stricter EPA regulations at the end of 2015. These plants include Cane Run, Tyrone and Green River, which have a combined summer rating of 797 MW. Also, in September, the companies requested KPSC approval to build a 640 MW natural gas-fired combined-cycle plant at the existing Cane Run site in Kentucky. The project has an expected cost of approximately $583 million, which includes costs of building a natural gas supply pipeline.

See Note 8 to the Financial Statements for additional information.

With limited exceptions, LKE took care, custody and control of TC2 in January 2011, and has dispatched the unit to meet customer demand since that date. TC2 is a new 760 MW capacity baseload, coal-fired unit that is jointly owned by LG&E and KU (combined 75% interest), and the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency (combined 25% interest). See Note 10 to the Financial Statements for additional information.

See Notes 1 and 10 to the Financial Statements in PPL's 2010 Form 10-K for information on PPL's November 2010 acquisition of LKE.

Environmental Matters

Protection of the environment is a priority for PPL and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to PPL's air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc., and may impact the costs for their products or their demand for PPL's services. See "Overview" and Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in PPL's 2010 Form 10-K for additional information on environmental matters.

New Accounting Guidance

See Note 18 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: price risk management, defined benefits, asset impairment, loss accruals, AROs, income taxes, regulatory assets and liabilities and business combinations - purchase price allocation. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in PPL's 2010 Form 10-K for a discussion of each critical accounting policy.

Following is an update to the critical accounting policies disclosed in PPL's 2010 Form 10-K.

Business Combinations - Purchase Price Allocation

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary, PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands). In accordance with accounting guidance on business combinations, the identifiable assets acquired and the liabilities assumed must be measured at fair value at the acquisition date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The excess of the purchase price over the estimated fair value of the identifiable net assets is recorded as goodwill.

The determination and allocation of fair value to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment, including estimates based on key assumptions of the acquisition, and historical and current market data. Significant variables in these valuations include the discount rates, the number of years on which to base cash flow projections, as well as the assumptions and estimates used to determine cash inflows and outflows.

As noted in Note 8 to the Financial Statements, the purchase price allocation is preliminary and could change materially in subsequent periods. The preliminary purchase price allocation was based on PPL's best estimates using information obtained as of the reporting date. Any changes to the purchase price allocation during the measurement period, which can extend up to one year from the date of acquisition, that result in material changes to the consolidated financial results will be adjusted retrospectively. The final purchase price allocation is expected to be completed before the end of 2011. The items pending finalization include, but are not limited to, the valuation of PP&E, intangible assets including goodwill, defined benefit plans, certain liabilities and income tax related matters.

The fair value of the majority of PP&E was determined utilizing a discounted cash flow approach and corroborated by the RAV, which is a measure of the unrecovered value of the regulated network business in the U.K. For purposes of measuring the fair value of the majority of PP&E, PPL determined that fair value should approximate the RAV at the acquisition date because WPD Midlands' operations are conducted in a regulated environment and the regulator allows for earning a rate of return on and recovery of RAV at rates determined to be fair and reasonable. As there is no current prospect for deregulation in WPD Midlands' operating area, it is expected that these operations will remain in a regulated environment for the foreseeable future; therefore, management has concluded that the use of these assets in the regulatory environment represents their highest and best use and a market participant would measure the fair value of these assets using the regulatory rate of return as the discount rate, thus resulting in fair value approximately equal to the RAV. The amounts recorded for PP&E are based on estimates and will be updated upon the finalization of the valuation work.

The preliminary purchase price allocation resulted in goodwill of $2.4 billion that was assigned to the International Regulated segment. This reflects the expected continued growth of a rate-regulated business with a defined service area operating under a constructive regulatory framework, expected cost savings, efficiencies and other benefits resulting from a contiguous service area with WPD (South West) and WPD (South Wales) and the ability to leverage WPD (South West)'s and WPD (South Wales)'s existing management team's high level of performance in capital cost efficiency, system reliability and customer service.

See Note 8 to the Financial Statements for additional information regarding the acquisition.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with PPL Energy Supply's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL Energy Supply's Form 8-K dated June 24, 2011 and 2010 Form 10-K. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides an overview of PPL Energy Supply's business strategy, financial and operational highlights and key legal and regulatory matters.

- "Results of Operations" provides a summary of PPL Energy Supply's earnings and a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on PPL Energy Supply's Statements of Income, comparing the three and nine months ended September 30, 2011 with the same periods in 2010.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL Energy Supply's liquidity position and credit profile. This section also includes a discussion of rating agency decisions.

- "Financial Condition - Risk Management" provides an explanation of PPL Energy Supply's risk management programs relating to market and credit risk.

Overview

Introduction

PPL Energy Supply is an energy company with headquarters in Allentown, Pennsylvania. Through its subsidiaries, PPL Energy Supply is primarily engaged in the generation and marketing of electricity in two key markets - the northeastern and northwestern U.S.

Through December 31, 2010, PPL Energy Supply had two reportable segments - International Regulated and Supply. However, in January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to its direct parent, PPL Energy Funding, to better align PPL's organizational structure with the manner in which it manages its businesses and reports segment information in its consolidated financial statements. The distribution separated the U.S. based competitive energy marketing and supply business from the U.K. based regulated electricity distribution business. As a result, effective January 1, 2011, PPL Energy Supply operates in a single business segment. The 2010 operating results of the International Regulated segment have been reclassified to "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income. See Note 8 to the Financial Statements for additional information on the January 2011 distribution.

Business Strategy

PPL Energy Supply's overall strategy is to achieve disciplined growth in energy supply margins while mitigating volatility in both cash flows and earnings. More specifically, PPL Energy Supply's strategy is to optimize the value from its unregulated generation and marketing portfolio. PPL Energy Supply endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk.

To manage financing costs and access to credit markets, a key objective of PPL Energy Supply's business is to maintain a strong credit profile. PPL Energy Supply continually focuses on maintaining an appropriate capital structure and liquidity position. In addition, PPL Energy Supply has adopted financial and operational risk management programs that, among other things, are designed to monitor and manage its exposure to earnings and cash flow volatility related to changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of its generating units.

Financial and Operational Highlights

Net Income Attributable to PPL Energy Supply

Net Income Attributable to PPL Energy Supply for the three and nine months ended September 30, 2011 was $169 million and $472 million compared to $265 million and $551 million for the same periods in 2010. This represents a 36% and 14% decrease from 2010. These decreases reflect the following after-tax impacts.

	Three Months	Nine Months
Net unrealized gains/(losses) on energy-related economic activity	$ (14)	$ 119
Impairment charges in 2010 related to the sale of certain non-core generation facilities	62	60
Losses on the monetization of certain full-requirement sales contracts in 2010	27	102
Litigation settlement in 2011 related spent nuclear fuel storage	4	33
Change in "Unregulated Gross Energy Margins" (a)	(37)	(154)
Change in tax benefit from the domestic manufacturing deduction	(12)	(24)
Federal and state tax reserve adjustments	(12)	(13)
Results of PPL Global no longer being consolidated within PPL Energy Supply	(106)	(227)
Other	(8)	25
	$ (96)	$ (79)

(a) The change in "Unregulated Gross Energy Margins" is primarily due to lower baseload energy and capacity prices, changes in coal and hydro generation volumes and losses from the monetization of certain contracts in 2010 that rebalanced the business and portfolio, partially offset by higher margins on full-requirement sales contracts driven by contracts monetized in 2010 and reduced shopping. See "Statement of Income Analysis - Margins" for additional information and a reconciliation of "Unregulated Gross Energy Margins" to Operating Income.

See "Results of Operations" below for further discussion and analysis of the consolidated results of operations.

Susquehanna Turbine Blade Replacement

In April 2011, during the PPL Susquehanna Unit 2 refueling and generation uprate outage, a planned inspection of the Unit 2 turbine revealed cracks in certain of its low pressure turbine blades. Replacement of these blades was required, but was not anticipated as part of the original scope of this outage. The necessary replacement work extended the Unit 2 outage by six weeks. As a precaution, PPL Susquehanna also took Unit 1 out of service in mid-May to inspect the turbine blades in that unit. This inspection revealed cracks in blades similar to those found in Unit 2. The duration of the Unit 1 outage, in which turbine blades were replaced, was also about six weeks. The after-tax earnings impact, including reduced energy-sales margins and repair expense for both units was $63 million. The majority of these costs were incurred during the second quarter of 2011.

Legal and Regulatory Matters

Federal

CSAPR

In July 2011, the EPA signed the CSAPR which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. This rule applies to PPL Energy Supply's plants in Pennsylvania. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions. In October 2011, the EPA proposed technical adjustments to the CSAPR to account for updated data submitted to the agency. Several states and a number of companies have filed petitions for review with the U.S. Court of Appeals for the District of Columbia Circuit challenging various provisions of the CSAPR. PPL Energy Supply's initial review of the allocations under the CSAPR indicates that greater reductions in sulfur dioxide emissions will be required beginning in 2012 under the CSAPR than were required under the CAIR.

For the initial phase of the rule beginning in 2012, sulfur dioxide allowance allocations are expected to be greater than the forecasted emissions based on present operations of existing sulfur dioxide scrubbers and coal supply. However, for the second phase beginning in 2014, PPL Energy Supply will likely have to modify operations and dispatch of its generation fleet in Pennsylvania. With respect to nitrogen oxide emissions, the CSAPR provides a slightly higher amount of allowances for PPL Energy Supply's Pennsylvania plants than under CAIR, but still less than their current forecasted emissions. With uncertainty surrounding the trading program, other compliance options are being analyzed for the fleet, such as the installation of new technology.

Additionally, PPL Energy Supply's plants, including those in Montana, may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. PPL Energy Supply anticipates that some of the measures required for compliance with the CSAPR, such as upgraded or new sulfur dioxide scrubbers at some of its plants and retirement of certain units, may also be necessary to achieve compliance with new sulfur dioxide standards. If additional reductions were to be required, the economic impact to PPL Energy Supply could be significant. See Note 10 to the Financial Statements for additional information on the CSAPR.

Spent Nuclear Fuel Litigation

In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna station. Under the settlement agreement, PPL Susquehanna received $50 million, pre-tax for its share of claims to partially offset its expenses incurred to store spent nuclear fuel at the Susquehanna station through September 2009 and recognized a credit to "Fuel" expense in the second quarter of 2011. PPL Susquehanna also will be eligible to receive payment of annual claims for allowed costs that are incurred thereafter through the December 2013 termination of the settlement agreement. See Note 10 to the Financial Statements for additional information.

Montana Hydroelectric Litigation

In June 2011, the U.S. Supreme Court granted PPL Montana's petition to review the March 2010 Montana Supreme Court decision, which substantially affirmed the June 2008 Montana District Court decision to award the State of Montana retroactive compensation for PPL Montana's hydroelectric facilities' use and occupancy of certain Montana riverbeds. Oral argument is scheduled for December 2011. The stay of judgment granted during the proceedings before the Montana Supreme Court has been extended by agreement with the State of Montana to cover the anticipated period of the proceeding before the U.S. Supreme Court. See Note 10 to the Financial Statements for additional information.

Results of Operations

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods.

Earnings

Net Income Attributable to PPL Energy Supply for the periods ended September 30 was:

	Three Months			Nine Months		
	2011	2010	% Change	2011	2010	% Change
Operating revenues	$ 1,441	$ 1,508	(4)	$ 3,807	$ 4,437	(14)
Fuel	358	322	11	826	810	2
Energy purchases	338	460	(27)	753	1,709	(56)
Other operation and maintenance	208	213	(2)	741	765	(3)
Depreciation	62	59	5	181	176	3
Taxes, other than income	18	12	50	50	34	47
Energy-related business	130	95	37	350	269	30
Total operating expenses	1,114	1,161	(4)	2,901	3,763	(23)
Other Income (Expense) - net	2	6	(67)	20	17	18
Other-Than-Temporary Impairments	5		n/a	6	3	100
Interest Income from Affiliates	2	1	100	6	3	100
Interest Expense	52	48	8	150	150	
Income Taxes	104	93	12	305	178	71
Income (Loss) from Discontinued Operations		53	(100)	2	189	(99)
Net Income	170	266	(36)	473	552	(14)
Net Income Attributable Noncontrolling Interests	1	1		1	1	
Net Income Attributable to PPL Energy Supply	$ 169	$ 265	(36)	$ 472	$ 551	(14)

The changes in the components of Net Income Attributable to PPL Energy Supply between the periods ended September 30, 2011 and 2010 were due to the following factors. PPL Energy Supply's results are adjusted for several items that management considers special. See additional detail of these items in the table below.

	Three Months	Nine Months
Unregulated gross energy margins	$ (64)	$ (264)
Other operation and maintenance	(5)	(40)
Other income (expense) - net	-	7
Interest Expense	(4)	(6)
Other	(11)	(13)
Income taxes	10	96
Discontinued operations - Domestic, after-tax - excluding certain revenues and expenses included in margins	4	13
Discontinued operations - International, after-tax	(106)	(227)
Special items, after-tax	80	355
Total	$ (96)	$ (79)

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.

- Other operation and maintenance expense was higher for the nine-month period primarily due to $16 million of higher payroll-related costs, $9 million of which relates to PPL Susquehanna, and increased costs at PPL Susquehanna of $10 million from the dual-unit turbine blade replacement outages and $8 million from the refueling outage.

- Other income (expense) - net was $5 million higher in the nine-month period due to higher 2011 earnings on securities in the NDT funds.

- Income taxes were $34 and $129 million lower for the three and nine-month periods primarily due to lower pre-tax income. The decreases in income taxes were partially offset by a $12 million and $24 million decrease in the tax benefit from the domestic manufacturing deduction resulting from the impact of bonus tax depreciation and a $12 million and $13 million increase in income taxes primarily due to 2010 adjustments in federal and state income tax reserves.

- Income (loss) from discontinued operations - International, represents the results of PPL Global which was distributed to PPL Energy Supply's parent, PPL Energy Funding in January 2011. See Note 8 to the Financial Statements for additional information.

The following after-tax amounts, which management considers special items, also impacted PPL Energy Supply's earnings for the periods ended September 30.

	Income Statement Line Item	Three Months 2011	Three Months 2010	Nine Months 2011	Nine Months 2010
Special Items, net of tax benefit (expense):					
Adjusted energy-related economic activity, net, net of tax of $8, ($1), ($2), $83	(a)	$ (10)	$ 4	$ 4	$ (115)
Sales of assets:					
Sundance indemnification, net of tax of $0, $0, $0, $0	Other Income-net				1
Impairments:					
Emission allowances, net of tax of $0, $2, $1, $6 (Note 13)	Other O&M		(2)	(1)	(9)
Renewable energy credits, net of tax of $0, $0, $2, $0 (Note 13)	Other O&M			(3)	
Adjustments - nuclear decommissioning trust investments, net of tax of $2, $0, $2, $1 (b)	Other Income-net	(1)			
LKE acquisition-related costs:					
Monetization of certain full-requirement sales contracts, net of tax of $0, $20, $0, $72	(c)		(27)		(102)
Sale of certain non-core generation facilities, net of tax of $0, $39, $0, $39 (d)	Disc. Operations		(62)	(2)	(62)
Other:					
Montana hydroelectric litigation, net of tax of $0, $0, $1, $22	(e)	(1)	(1)	(2)	(34)
Litigation settlement - spent nuclear fuel storage, net of tax of ($2), $0, ($23), $0 (f)	Fuel	4		33	
Health care reform - tax impact (g)	Income Taxes				(5)
Total		$ (8)	$ (88)	$ 29	$ (326)

(a) See "Reconciliation of Economic Activity" below.
(b) Represents other-than-temporary impairment charges on securities, including the reversal of previous other-than-temporary impairment charges when securities previously impaired were sold.
(c) See "Monetization of Certain Full-Requirement Sales Contracts" in Note 14 to the Financial Statements. For the three and nine months ended September 30, 2010, $150 and $343 million of pre-tax gains were recorded to "Wholesale energy marketing" and $197 and $517 million of pre-tax losses were recorded to "Energy purchases" on the Statements of Income.
(d) Assets associated with certain non-core generation facilities were written down to their estimated fair value (less cost to sell). These facilities were sold in March 2011.

(e) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. Through September 30, 2010, PPL Montana recorded a pre-tax charge of $56 million, representing estimated rental compensation for years prior to 2010, including interest. Of this total charge $47 million, pre-tax, was recorded to "Other operation and maintenance" and $9 million, pre-tax, was recorded to "Interest Expense" on the Statements of Income. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the Supreme Court granted PPL Montana's petition. Oral argument is scheduled for December 2011. PPL Montana continues to accrue interest expense on rental compensation covered by the court decision.

(f) In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna station. PPL Susquehanna recorded credits to fuel expense of $6 million and $56 million, pre-tax for the three and nine months ended September 30, 2011 to recognize recovery, under the settlement agreement, of certain costs to store spent nuclear fuel at the Susquehanna station. The amounts recorded through September 2011 cover the costs incurred from 1998 through December 2010.

(g) Represents income tax expense recorded as a result of the provisions within Health Care Reform which eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) from the table within "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements to the special item identified as "Adjusted energy-related economic activity, net" for the periods ended September 30.

	Three Months		Nine Months	
	2011	**2010**	**2011**	**2010**
Operating Revenues				
Unregulated retail electric and gas	$ 4	$ 8	$ 9	$ 16
Wholesale energy marketing	216	52	229	(190)
Operating Expenses				
Fuel	(28)	16	(16)	13
Energy Purchases	(176)	(300)	(49)	(418)
Energy-related economic activity (a)	16	(224)	173	(579)
Option premiums (b)	6	21	17	46
Adjusted energy-related economic activity	22	(203)	190	(533)
Less: Unrealized economic activity associated with the monetization of certain full-requirement sales contracts in 2010 (c)		(208)		(335)
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010	40		184	
Adjusted energy-related economic activity, net, pre-tax	$ (18)	$ 5	$ 6	$ (198)
Adjusted energy-related economic activity, net, after-tax	$ (10)	$ 4	$ 4	$ (115)

(a) See Note 14 to the Financial Statements for additional information.

(b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. Option premiums are recorded in Wholesale energy marketing - realized and Energy purchases - realized on the Statements of Income.

(c) See "Components of Monetization of Certain Full-Requirement Sales Contracts" below.

Components of Monetization of Certain Full-Requirement Sales Contracts

The following table provides the components of the "Monetization of Certain Full-Requirements Sales Contracts" special item for the periods ended September 30, 2010.

	Three Months	**Nine Months**
Full-requirement sales contracts monetized (a)	$ 32	$ (28)
Economic activity related to the full-requirement sales contracts monetized	(79)	(146)
Monetization of certain full-requirement sales contracts, pre-tax (b)	$ (47)	$ (174)
Monetization of certain full-requirement sales contracts, after-tax	$ (27)	$ (102)

(a) See "Commodity Price Risk (Non-trading) - Monetization of Certain Full-Requirement Sales Contracts" in Note 14 to the Financial Statements for additional information.

(b) The three and nine-month periods include unrealized losses of $208 million and $335 million, which are reflected in "Wholesale energy marketing - Unrealized economic activity" and "Energy purchases - Unrealized economic activity" on the Statement of Income. Both periods include net realized gains of $161 million, which are reflected in "Wholesale energy marketing - Realized" and "Energy purchases - Realized" on the Statement of Income. This economic activity will continue to be realized through May 2013.

Outlook

Excluding special items, earnings are expected to be lower in 2011, compared with 2010, as a result of lower energy margins driven by lower Eastern energy and capacity prices, higher average fuel costs and the turbine blade replacement outages at the Susquehanna nuclear plant, as well as higher income taxes and higher operation and maintenance expense.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2 and Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business," and "Item 1A. Risk Factors" in the Form 8-K dated June 24, 2011 for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Unregulated Gross Energy Margins." "Unregulated Gross Energy Margins" is a single financial performance measure of PPL Energy Supply's competitive energy non-trading and trading activities. In calculating this measure, PPL Energy Supply's energy revenues, which include operating revenues associated with certain PPL Energy Supply businesses that are classified as discontinued operations, are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges, gross receipts tax, which is recorded in "Taxes, other than income," and operating expenses associated with certain PPL Energy Supply businesses that are classified as discontinued operations. This performance measure is relevant to PPL Energy Supply due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant swings in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Wholesale energy marketing" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are recorded in "Wholesale energy marketing to affiliate" revenue. PPL Energy Supply excludes from "Unregulated Gross Energy Margins" energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of PPL Energy Supply's competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Also included in this energy-related economic activity is the ineffective portion of qualifying cash flow hedges, the monetization of certain full-requirement sales contracts and premium amortization associated with options. This economic activity is deferred, with the exception of the full-requirement sales contracts that were monetized, and included in unregulated gross energy margins over the delivery period that was hedged or upon realization. This measure is not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL Energy Supply believes that "Unregulated Gross Energy Margins" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management and PPL's Board of Directors to manage PPL Energy Supply's operations, analyze actual results compared to budget and measure certain corporate financial goals used in determining variable compensation.

Reconciliation of Non-GAAP Financial Measures

The following table reconciles "Operating Income" to "Unregulated Gross Energy Margins" as defined by PPL Energy Supply for the periods ended September 30.

	2011 Three Months			2010 Three Months		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues						
Wholesale energy marketing						
Realized	$ 897	$ 10 (c)	$ 907	$ 916	$ 276 (c)	$ 1,192
Unrealized economic activity		216 (d)	216		52 (d)	52
Wholesale energy marketing to affiliate	5		5	71		71
Unregulated retail electric and gas	186	4	190	108	8	116
Net energy trading margins	(7)		(7)	(20)		(20)
Energy-related businesses		130	130		97	97
Total Operating Revenues	1,081	360	1,441	1,075	433	1,508
Operating Expenses						
Fuel	338	20 (e)	358	340	(18) (e)	322
Energy purchases						
Realized	119	42 (c)	161	68	91 (c)	159
Unrealized economic activity		176 (d)	176		300 (d)	300
Energy purchases from affiliate	1		1	1		1
Other operation and maintenance		208	208	7	206	213
Depreciation		62	62		59	59
Taxes, other than income	8	10	18	2	10	12
Energy-related businesses		130	130		95	95
Total Operating Expenses	466	648	1,114	418	743	1,161
Discontinued Operations				22	(22) (f)	
Total	$ 615	$ (288)	$ 327	$ 679	$ (332)	$ 347

	2011 Nine Months			2010 Nine Months		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues						
Wholesale energy marketing						
Realized	$ 2,635	$ 42 (c)	$ 2,677	$ 3,481	$ 301 (c)	$ 3,782
Unrealized economic activity		229 (d)	229		(190) (d)	(190)
Wholesale energy marketing to affiliate	15		15	250		250
Unregulated retail electric and gas	509	9	518	305	16	321
Net energy trading margins	14		14	(4)		(4)
Energy-related businesses		354	354		278	278
Total Operating Revenues	3,173	634	3,807	4,032	405	4,437
Operating Expenses						
Fuel	872	(46) (e)	826	829	(19) (e)	810
Energy purchases						
Realized	496	205 (c)	701	1,198	91 (c)	1,289
Unrealized economic activity		49 (d)	49		418 (d)	418
Energy purchases from affiliate	3		3	2		2
Other operation and maintenance	13	728	741	20	745	765
Depreciation		181	181		176	176
Taxes, other than income	22	28	50	8	26	34
Energy-related businesses		350	350		269	269
Total Operating Expenses	1,406	1,495	2,901	2,057	1,706	3,763
Discontinued Operations	12	(12) (f)		68	(68) (f)	
Total	$ 1,779	$ (873)	$ 906	$ 2,043	$ (1,369)	$ 674

(a) Represents amounts excluded from Margins.
(b) As reported on the Statement of Income.
(c) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements. For the three and nine months ended September 30, 2011, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" include a net pre-tax gain of $6 million and $17 million related to the amortization of option premiums and a net pre-tax loss of $40 million and $184 million related to the monetization of certain full-requirement sales contracts. The three and nine months ended September 30, 2010 include a net pre-tax gain of $21 million and $46 million related to the amortization of option premiums and a net pre-tax gain of $161 million for both periods related to the monetization of certain full-requirement sales contracts.
(d) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements.
(e) 2011 includes credits for the spent nuclear fuel litigation settlement recorded in the three and nine months ended September 30, 2011 of $6 million and $56 million, and economic activity related to fuel. 2010 includes economic activity related to fuel.

(f) Represents the net of certain revenues and expenses associated with certain businesses that are classified as discontinued operations. These revenues and expenses are not reflected in "Operating Income" on the Statements of Income.

Changes in Non-GAAP Financial Measures

Unregulated Gross Energy Margins are generated through PPL Energy Supply's competitive non-trading and trading activities. PPL Energy Supply's non-trading energy business is managed on a geographic basis that is aligned with its generation fleet. The following table shows PPL Energy Supply's non-GAAP financial measure, Unregulated Gross Energy Margins, for the periods ended September 30, as well as the change between periods. The factors that gave rise to the changes are described below the table.

	Three Months			Nine Months		
	2011	2010	Change	2011	2010	Change
Non-trading						
Eastern U.S.	$ 530	$ 611	$ (81)	$ 1,502	$ 1,788	$ (286)
Western U.S.	92	88	4	263	259	4
Net energy trading	(7)	(20)	13	14	(4)	18
Total	$ 615	$ 679	$ (64)	$ 1,779	$ 2,043	$ (264)

Unregulated Gross Energy Margins

Eastern U.S.

Changes in Eastern U.S. non-trading margins for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Lower baseload energy and capacity prices	$ (65)	$ (142)
Coal and hydro generation volume	2	(47)
2010 monetization of certain deals that rebalanced the business and portfolio	(14)	(41)
Impact of non-core generation facilities sold in the first quarter of 2011	(21)	(37)
Nuclear generation volume (a)	20	(35)
Higher coal prices	(16)	(31)
Lower intermediate/peaking capacity prices, partially offset by higher generation volumes in the first half of 2011	(18)	(18)
Full-requirement sales contracts driven by contracts monetized in 2010 and reduced shopping in 2011	23	74
Other	8	(9)
	$ (81)	$ (286)

(a) Volumes were higher for the three-month period as the result of the final uprate at Susquehanna Unit 2. Volumes were lower for the nine-month period primarily as a result of the dual-unit turbine blade replacement outages beginning in May 2011.

Net Energy Trading Margins

Net energy trading margins increased during the three and nine months ended September 30, 2011, compared with the same periods in 2010, as a result of higher margins on power and gas positions of $13 million and $18 million.

Other Operation and Maintenance

Changes in other operation and maintenance expense for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Montana hydroelectric litigation (a)		$ (47)
Susquehanna nuclear plant costs (b)	$ (5)	23
Impacts from emission allowances (c)	(3)	(13)
Gain on disposition of RECs (d)	(3)	5
Other	6	8
Total	$ (5)	$ (24)

(a) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. As a result, in the first quarter of 2010, PPL Montana recorded a pre-tax charge of $56 million, representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. The portion of the total charge recorded to other operation and maintenance totaled $49 million. PPL Montana continues to accrue rental compensation. See Note 10 to the Financial Statements for additional information.

(b) The nine-month period was $23 million higher primarily due to increased costs of $10 million from the dual-unit turbine blade replacement outages, $9 million of higher payroll-related costs and $8 million from the refueling outage.

(c) The nine-month period was $13 million lower primarily due to $2 million of impairment charges in 2011 compared with $15 million of impairment charges in 2010.
(d) The three and nine-month periods include impairment charges of $1 million and $5 million.

Taxes, Other Than Income

Taxes, other than income increased by $6 million and $16 million for the three and nine months ended September 30, 2011, compared with the same periods in 2010, primarily due to higher Pennsylvania gross receipts tax expense due to an increase in electricity revenues at PPL EnergyPlus as customers continue to select alternative suppliers in 2011. This tax is included in "Unregulated Gross Energy Margins."

Other Income (Expense) - net

See Note 12 to the Financial Statements for details.

Interest Expense

Changes in interest expense for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Capitalized interest	$ (5)	$ (13)
Montana hydroelectric litigation (a)		(6)
Short-term and long-term debt interest expense	3	13
Net amortization of debt discounts, premiums and issuance costs (b)	8	8
Other	(2)	(2)
Total	$ 4	$

(a) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. As a result, in the first quarter of 2010, PPL Montana recorded $7 million of interest expense on rental compensation covered by the court decision. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the Supreme Court granted PPL Montana's petition. Oral argument is scheduled for December 2011. PPL Montana continues to accrue interest expense on the rental compensation covered by the court decision. See Note 10 to the Financial Statements for additional information.
(b) The three and nine-month periods include the acceleration of deferred financing fees of $7 million, due to the July 2011 redemption by PPL Energy Supply of $250 million of 7.00% Senior Notes due 2046.

Income Taxes

Changes in income taxes for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Higher (lower) pre-tax book income	$ (14)	$ 94
State valuation allowance adjustments		6
Federal income tax credits	(1)	(4)
Domestic manufacturing deduction (a)	12	24
Federal and state tax reserve adjustments	12	13
Health Care Reform		(5)
Other	2	(1)
Total	$ 11	$ 127

(a) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation eliminates the estimated income tax benefit related to domestic manufacturing deduction in 2011. See Note 5 to the Financial Statements for additional information on income taxes.

Discontinued Operations

Income (Loss) from Discontinued Operations (net of income taxes) decreased by $53 million and $187 million for the three and nine months ended September 30, 2011, compared with the same periods in 2010. The decreases were primarily due to the presentation of PPL Global as Discontinued Operations as a result of the January 2011 distribution by PPL Energy Supply of its membership interest in PPL Global to its parent, PPL Energy Funding. In 2011, the results of PPL Global are no longer consolidated within PPL Energy Supply. Partially offsetting the decreases were after-tax impairment charges recorded in the third quarter of 2010 totaling $62 million related to assets associated with certain non-core generation facilities that were written down to their estimated fair value (less cost to sell). These facilities were sold in March 2011. See "Discontinued Operations" in Note 8 to the Financial Statements for additional information.

Financial Condition

Liquidity and Capital Resources

PPL Energy Supply had the following at:

	September 30, 2011	December 31, 2010
Cash and cash equivalents	$ 375	$ 661
Short-term debt	$ 250	$ 531

The $286 million decrease in PPL Energy Supply's cash and cash equivalents position was primarily the net result of:

- capital expenditures of $499 million;
- a distribution of $325 million of cash included in the net assets of PPL Global distributed to member;
- the retirement of $250 million of long-term debt;
- distributions to member of $209 million;
- a net decrease in short-term debt of $100 million (excluding short-term debt of PPL Global that existed at December 31, 2010);
- cash provided by operating activities of $440 million;
- proceeds of $381 million from the sale of certain non-core generation facilities; and
- contributions from member of $361 million.

PPL Energy Supply's cash provided by operating activities decreased by $1.2 billion for the nine months ended September 30, 2011, compared with the same period in 2010. This was primarily due to a reduction in cash from counter party collateral of $442 million, lower gross energy margins of $154 million, after-tax, proceeds from monetizing certain full-requirements energy contracts in 2010 of $249 million, and the loss of operating cash from PPL Global ($104 million for the nine months ended September 30, 2010.)

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. PPL Global's impact on cash provided by operating activities for the nine months ended September 30, 2010 was not material. See Note 8 to the Financial Statements for additional information on the distribution.

Credit Facilities

At September 30, 2011, PPL Energy Supply's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
Syndicated Credit Facility (a)	$ 3,000	$ 250	$ 132	$ 2,618
Letter of Credit Facility	200	n/a	76	124
Total PPL Energy Supply Credit Facilities (b)	$ 3,200	$ 250	$ 208	$ 2,742

(a) Outstanding borrowings under this facility decreased on a net basis by $100 million since December 31, 2010.

In October 2011, PPL Energy Supply amended its Syndicated Credit Facility. The amendment included extending the expiration date from December 2014 to October 2016. Under this facility, PPL Energy Supply continues to have the ability to make cash borrowings and to request the lenders to issue letters of credit.

(b) In March 2011, PPL Energy Supply's $300 million Structured Credit Facility expired. PPL Energy Supply's obligations under this facility were supported by a $300 million letter of credit issued on PPL Energy Supply's behalf under a separate, but related $300 million 5-year credit agreement, which also expired in March 2011.

The commitments under PPL Energy Supply's credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 11% of the total committed capacity.

See Note 7 to the Financial Statements for further discussion of PPL Energy Supply's credit facilities.

Commercial Paper

In October 2011, PPL Energy Supply re-activated its $500 million commercial paper program to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At November 4, 2011, PPL Energy Supply had $400 million of commercial paper outstanding at a weighted-average interest rate of approximately 0.51%, which was used to partially fund the repayment of PPL Energy Supply's 6.40% Senior Notes upon maturity in November 2011. PPL Energy Supply expects to refinance outstanding commercial paper on a long-term basis at a future date, subject to market conditions.

Long-term Debt Securities

In July 2011, PPL Energy Supply redeemed at par the entire $250 million aggregate principal amount of its 7.00% Senior Notes due 2046.

In November 2011, PPL Energy Supply repaid the entire $500 million principal amount of its 6.40% Senior Notes upon maturity.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of PPL Energy Supply and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL Energy Supply and its subsidiaries are based on information provided by PPL Energy Supply and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL Energy Supply or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in PPL Energy Supply's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets.

In prior periodic reports, PPL Energy Supply described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, PPL Energy Supply is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to PPL Energy Supply's ratings, but without stating what ratings have been assigned to PPL Energy Supply or its subsidiaries, or their securities. The ratings assigned by the rating agencies to PPL Energy Supply and its subsidiaries and their respective securities may be found, without charge, on each of the respective rating agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of PPL's then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

- Moody's affirmed its ratings for PPL Energy Supply;
- S&P revised the outlook and lowered the issuer and senior unsecured ratings of PPL Energy Supply; and
- Fitch affirmed its ratings for PPL Energy Supply.

In April 2011, following the completion of PPL's acquisition of WPD Midlands, S&P revised the outlook and affirmed its ratings for PPL Energy Supply.

In May 2011, Fitch affirmed its rating and maintained its outlook for PPL Montana's Pass Through Certificates due 2020.

In September 2011, Moody's affirmed its senior unsecured debt rating and outlook for PPL Energy Supply.

Also in September 2011, S&P assigned a short-term rating to PPL Energy Supply's commercial paper program.

In October 2011, Moody's and Fitch also assigned a short-term rating to PPL Energy Supply's commercial paper program in support of PPL Energy Supply's re-opening of the program.

Ratings Triggers

PPL Energy Supply and its subsidiaries have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements and interest rate instruments, which contain provisions requiring PPL Energy Supply and its subsidiaries to post additional collateral, or permitting the counterparty to terminate the contract, if PPL Energy Supply or its subsidiaries' credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at September 30, 2011. At September 30, 2011, if PPL Energy Supply's or its subsidiaries' credit rating had been below investment grade, the maximum amount that PPL Energy Supply would have been required to post as additional collateral to counterparties was $386 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations and interest rate contracts.

For additional information on PPL Energy Supply's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Form 8-K dated June 24, 2011.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about PPL Energy Supply's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

PPL Energy Supply segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL Energy Supply's competitive generation assets, full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. The net fair value of economic positions at September 30, 2011 and December 31, 2010 was a net liability of $218 million and $389 million. See Note 14 to the Financial Statements for additional information on economic activity.

To hedge the impact of market price volatility on PPL Energy Supply's energy-related assets, liabilities and other contractual arrangements, PPL Energy Supply both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL Energy Supply's non-trading commodity derivative contracts mature at various times through 2017.

The following table sets forth the changes in net fair value of PPL Energy Supply's non-trading commodity derivative contracts for the periods ended September 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Nine Months	
	2011	2010	2011	2010
Fair value of contracts outstanding at the beginning of the period	$ 896	$ 1,303	$ 958	$ 1,280
Contracts realized or otherwise settled during the period	(99)	(96)	(234)	(330)
Fair value of new contracts entered into during the period	4	3	19	10
Changes in fair value attributable to changes in valuation techniques (a)				(23)
Other changes in fair value	43	144	101	417
Fair value of contracts outstanding at the end of the period	$ 844	$ 1,354	$ 844	$ 1,354

(a) In June 2010, PPL Energy Supply received market bids for certain full-requirement sales contracts that were monetized in early July. See Note 14 to the Financial Statements for additional information. At June 30, 2010, these contracts were valued based on the bids received (the market approach). In prior periods, the fair value of these contracts was measured using the income approach.

The following table segregates the net fair value of PPL Energy Supply's non-trading commodity derivative contracts at September 30, 2011, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

	Net Asset (Liability)				
Source of Fair Value	**Maturity Less Than 1 Year**	**Maturity 1-3 Years**	**Maturity 4-5 Years**	**Maturity in Excess of 5 Years**	**Total Fair Value**
Prices based on significant other observable inputs	$ 533	$ 272	$ 13		$ 818
Prices based on significant unobservable inputs	(8)	(13)	20	$ 27	26
Fair value of contracts outstanding at the end of the period	$ 525	$ 259	$ 33	$ 27	$ 844

PPL Energy Supply sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL Energy Supply were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties with which it has energy contracts and other factors could affect PPL Energy Supply's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL Energy Supply attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future.

Commodity Price Risk (Trading)

PPL Energy Supply's trading commodity derivative contracts mature at various times through 2015. The following table sets forth changes in the net fair value of PPL Energy Supply's trading commodity derivative contracts for the periods ended September 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		**Nine Months**	
	2011	**2010**	**2011**	**2010**
Fair value of contracts outstanding at the beginning of the period	$ 15	$ 4	$ 4	$ (6)
Contracts realized or otherwise settled during the period	(10)	(8)	(7)	(8)
Fair value of new contracts entered into during the period	(2)	45	6	47
Other changes in fair value	4	(39)	4	(31)
Fair value of contracts outstanding at the end of the period	$ 7	$ 2	$ 7	$ 2

Unrealized gains of approximately $4 million will be reversed over the next three months as the transactions are realized.

The following table segregates the net fair value of trading commodity derivative contracts at September 30, 2011, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

	Net Asset (Liability)				
Source of Fair Value	**Maturity Less Than 1 Year**	**Maturity 1-3 Years**	**Maturity 4-5 Years**	**Maturity in Excess of 5 Years**	**Total Fair Value**
Prices based on significant other observable inputs	$ (4)	$ 11			$ 7
Fair value of contracts outstanding at the end of the period	$ (4)	$ 11			$ 7

VaR Models

A VaR model is utilized to measure commodity price risk in domestic gross energy margins for the non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's conservative hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the period was as follows.

	Trading VaR		Non-Trading VaR	
	Nine Months Ended September 30, 2011	Twelve Months Ended December 31, 2010	Nine Months Ended September 30, 2011	Twelve Months Ended December 31, 2010
95% Confidence Level, Five-Day Holding Period				
Period End	$ 3	$ 1	$ 5	$ 5
Average for the Period	2	4	5	7
High	4	9	7	12
Low	1	1	4	4

The trading portfolio includes all speculative positions, regardless of the delivery period. All positions not considered speculative are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at September 30, 2011.

Interest Rate Risk

PPL Energy Supply and its subsidiaries have issued debt to finance their operations, which exposes them to interest rate risk. PPL and PPL Energy Supply utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in PPL Energy Supply's debt portfolio, adjust the duration of its debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of PPL Energy Supply's debt portfolio due to changes in the absolute level of interest rates. PPL Energy Supply had no interest rate hedges outstanding at September 30, 2011.

At September 30, 2011, PPL Energy Supply's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL Energy Supply is also exposed to changes in the fair value of its debt portfolio. PPL Energy Supply estimated that a 10% decrease in interest rates at September 30, 2011 would increase the fair value of its debt portfolio by $36 million.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the Susquehanna nuclear plant. At September 30, 2011, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on the Balance Sheet for $594 million. The mix of securities is designed to provide returns sufficient to fund such decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its NDT policy statement. At September 30, 2011, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated $39 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk

See Notes 11, 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL Energy Supply's Form 8-K dated June 24, 2011 for additional information.

Foreign Currency Translation

As noted previously, in January 2011, PPL Energy Supply distributed its interest in PPL Global to its parent, PPL Energy Funding. As a result, PPL Energy Supply no longer consolidates any foreign subsidiaries and has no foreign currency translation component within AOCI. In 2010, the British pound sterling weakened in relation to the U.S. dollar. Changes in these exchange rates resulted in a foreign currency translation loss of $83 million for the nine months ended September 30, 2010, which primarily reflected a $223 million reduction to PP&E offset by a reduction of $140 million to net liabilities. These adjustments, net of tax, resulting from translation are recorded in AOCI.

Related Party Transactions

PPL Energy Supply is not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with PPL Energy Supply. See Note 11 to the Financial Statements for additional information on related party transactions between PPL Energy Supply and affiliates.

Acquisitions, Development and Divestitures

PPL Energy Supply continuously evaluates potential acquisitions, divestitures and development projects as opportunities arise or are identified. Development projects are continuously reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options.

In the third quarter of 2011, the Susquehanna Unit 2 uprate, representing the final phase of the project to increase the nuclear plant's generation capacity, was completed and is projected to yield an additional 50 MW.

See Note 8 to the Financial Statements for additional information.

Environmental Matters

Protection of the environment is a priority for PPL Energy Supply and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to PPL Energy Supply's air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc.; and may impact the costs for their products or their demand for PPL Energy Supply's services. See "Overview" and Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in PPL Energy Supply's 2010 Form 10-K for additional information on environmental matters.

New Accounting Guidance

See Note 18 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: price risk management, defined benefits, asset impairment, loss accruals, AROs and income taxes. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in PPL Energy Supply's Form 8-K dated June 24, 2011 for a discussion of each critical accounting policy.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with PPL Electric's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL Electric's 2010 Form 10-K. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides an overview of PPL Electric's business strategy, financial and operational highlights, and key regulatory matters.

- "Results of Operations" provides a summary of PPL Electric's earnings and a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on PPL Electric's Statements of Income, comparing the three and nine months ended September 30, 2011 with the same periods in 2010.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL Electric's liquidity position and credit profile. This section also includes a discussion of rating agency decisions.

- "Financial Condition - Risk Management" provides an explanation of PPL Electric's risk management programs relating to market and credit risk.

Overview

Introduction

PPL Electric is an electricity delivery service provider in eastern and central Pennsylvania with headquarters in Allentown, Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that territory as a PLR under the Customer Choice Act.

Business Strategy

PPL Electric's strategy and principal challenge is to own and operate its electricity delivery business at the most efficient cost while maintaining high quality customer service and reliability. PPL Electric anticipates that it will have significant capital expenditure requirements in the future. In order to manage financing costs and access to credit markets, a key objective for PPL Electric's business is to maintain a strong credit profile. PPL Electric continually focuses on maintaining an appropriate capital structure and liquidity position.

Timely recovery of costs applicable to the replacement of aging distribution assets is required in order to maintain strong cash flows and a strong credit profile. Traditionally, such cost recovery would be pursued through periodic base rate case proceedings with the PUC. As such costs continue to increase, more frequent rate case proceedings may be required or an alternative rate making process would need to be implemented in order to achieve more timely recovery.

Transmission costs are recovered through a FERC Formula Rate mechanism which is updated annually for costs incurred and assets placed in service. Accordingly, increased costs including the replacement of aging transmission assets and the PJM-approved Regional Transmission Line Expansion Plan are recovered on a timely basis.

Financial and Operational Highlights

Net Income Available to PPL Corporation

Net Income Available to PPL Corporation for the three and nine months ended September 30, 2011 was $28 million and $116 million compared to $36 million and $89 million for the same periods in 2010. This represents a decrease of 22% and an increase of 30% from 2010. These changes reflect the following after tax impacts.

	Three Months	Nine Months
Distribution base rate increase effective in January 2011	$ 9	$ 29
Tax benefit related to flow-through regulated state tax depreciation		5
A 2011 transmission service charge adjustment	(4)	(4)
PUC-reportable storm costs, net of insurance recovery	(8)	(10)
Other	(5)	7
	$ (8)	$ 27

Transmission Service Charge Adjustment

During the three and nine months ended September 30, 2011, PPL Electric recorded a $7 million ($4 million after-tax) charge to "Retail electric" revenue on the Statement of Income to reduce a portion of the transmission service charge regulatory asset associated with a 2005 undercollection that was not included in any subsequent rate reconciliations filed with the PUC. PPL Electric plans to seek recovery with the PUC. However, management cannot assert at the present time that it is probable that the previously recorded regulatory asset will be recovered. The regulatory asset will be reinstated should the PUC approve recovery of these costs. The impact of this charge was not material to any previously reported financial statements and is not expected to be material to the financial statements for the full year of 2011.

Storm Recovery

PPL Electric experienced several PUC-reportable storms during the three and nine months ended September 30, 2011 resulting in total restoration costs of $34 million and $59 million, of which $23 million and $39 million were recorded in "Other operation and maintenance" on the Statement of Income. Although PPL Electric has storm insurance with a PPL affiliate, the costs associated with the unusually high number of PUC-reportable storms has exceeded policy limits. Probable insurance recoveries recorded during the three and nine months ended September 30, 2011 were $12 million and $26.5 million, of which $7 million and $16 million were included in "Other operation and maintenance" on the Statement of Income. In November 2011, PPL Electric filed with the PUC a request for permission to defer $15 million to $20 million for future recovery of allowable storm-related costs. At the time PPL Electric seeks recovery of any deferred amount, its claim will be based on the actual costs, net of insurance recoveries. A regulatory asset, for the actual costs net of insurance recoveries, will be recorded at such time as an order is received from the PUC approving deferral of these costs.

In late October 2011, PPL Electric experienced significant damage to its transmission and distribution network from a severe snow storm. The costs associated with the restoration efforts are still being determined and are not included in the amounts disclosed above. PPL Electric will evaluate such costs, when quantified, and will likely file with the PUC for permission to defer certain of the costs incurred to repair the distribution network for future recovery. Costs incurred to repair the transmission network are recoverable through the FERC Formula Rate mechanism which is updated annually.

See "Results of Operations" below for further discussion and analysis of the consolidated results of operations.

Regulatory Matters

PUC Investigation of Retail Market

In April 2011, the PUC opened an investigation of Pennsylvania's retail electricity market which will be conducted in two phases. Phase one will address the status of the current retail market and explore potential changes. Questions promulgated by the PUC for this phase of the investigation focus primarily on default service issues. In June 2011, interested parties filed comments and the PUC held a hearing in this phase of the investigation. In July 2011, the PUC entered an order initiating phase two of the investigation which will study how best to address issues identified by the PUC as being most relevant to improving the current retail electricity market. The PUC issued a tentative order in October 2011 addressing issues associated with the timing and various other details of the EDC's default service procurement plans. Parties will have an opportunity to comment on that tentative order. The PUC also has scheduled a hearing in this phase of the investigation in November 2011. It is likely that investigation will not be completed before the end of the year. PPL Electric cannot predict the outcome of the investigation.

Regional Transmission Line Expansion Plan

In 2007, PJM directed the construction of a new 150-mile, 500-kilovolt transmission line between the Susquehanna substation in Pennsylvania and the Roseland substation in New Jersey that it identified as essential to long-term reliability of the Mid-Atlantic electricity grid. PJM determined that the line is needed to prevent potential overloads that could occur as early as 2012 on several existing transmission lines in the interconnected PJM system. PJM has directed PPL Electric to construct the portion of the Susquehanna-Roseland line in Pennsylvania and has directed Public Service Electric & Gas Company to construct the portion of the line in New Jersey, in each case by June 1, 2012. PPL Electric's estimated share of the project costs is approximately $500 million.

PPL Electric has experienced delays in obtaining necessary National Park Service approvals for the Susquehanna-Roseland transmission line and anticipates a delay of the line's in-service date to 2015. In the first quarter of 2011, PJM issued an updated assessment of the new line within its 2010 Regional Transmission Expansion Plan, which confirms that the line is needed by 2012 to prevent overloads on other power lines in the region. PJM has developed a strategy to manage potential reliability problems until the line is built. In October 2011, the project was placed on the initial list of projects for the Rapid Response Team for Transmission (RRTT), an initiative of the White House to facilitate coordination among federal agencies to improve the overall quality and timeliness of electric transmission infrastructure permitting, review and consultation. The National Park Service record of decision for the project is scheduled to be issued on October 1, 2012. PPL Electric cannot predict what additional actions, if any, PJM might take in the event of a continued delay to its scheduled in-service date for the new line. See Note 8 in PPL Electric's 2010 Form 10-K for additional information.

Legislation - Regulatory Procedures and Mechanisms

In June 2011, the Pennsylvania House Consumer Affairs Committee approved legislation that would authorize the PUC to approve regulatory procedures and mechanisms to provide for more timely recovery of a utility's costs. Alternative ratemaking is important to PPL Electric as it begins a period of significant increasing capital investment related to the asset optimization program focused on the replacement of aging distribution assets. Those procedures and mechanisms include, but are not limited to, the use of a fully projected test year and an automatic adjustment clause to recover certain capital costs and related operating expenses. In October 2011, the legislation was passed by the Pennsylvania House of Representatives. It will now be considered by the Pennsylvania Senate. PPL Electric is working with other stakeholders to support passage of this legislation but cannot predict the outcome of this process.

Results of Operations

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods.

Earnings

Net Income Available to PPL Corporation for the periods ended September 30 was:

	Three Months			Nine Months		
	2011	2010	% Change	2011	2010	% Change
Operating revenue	$ 455	$ 571	(20)	$ 1,453	$ 1,906	(24)
Energy purchases	171	229	(25)	591	848	(30)
Energy purchases from affiliate	5	71	(93)	15	250	(94)
Other operation and maintenance	146	126	16	402	377	7
Depreciation	38	34	12	108	101	7
Taxes, other than income	26	32	(19)	83	108	(23)
Total operating expenses	386	492	(22)	1,199	1,684	(29)
Other Income (Expense) - net	2		n/a	3	3	
Interest Income from Affiliate	1		n/a	1	1	
Interest Expense	26	24	8	74	74	
Income Taxes	14	15	(7)	56	47	19
Net Income	32	40	(20)	128	105	22
Distributions on Preferred Securities	4	4		12	16	(25)
Net Income Available to PPL Corporation	$ 28	$ 36	(22)	$ 116	$ 89	30

The changes in the components of Net Income Available to PPL Corporation between the periods ended September 30, 2011 and 2010 were due to the following factors. See "Statement of Income Analysis - Margins" for component details.

	Three Months	Nine Months
Pennsylvania gross delivery margins	$ 8	$ 56
Other operation and maintenance	(15)	(18)
Depreciation	(4)	(7)
Other	2	1
Income taxes	1	(9)
Distributions on Preferred Securities		4
Total	$ (8)	$ 27

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of gross margins from the Pennsylvania regulated electric delivery operations.

- Other operation and maintenance expenses were $14 million and $17 million higher for the three and nine-month periods due to storm costs exceeding insurance policy limits in 2011.

- Income taxes were $12 million higher for the nine-month period due to higher pre-tax income. This increase was partially offset by a $5 million tax benefit related to the impact of flow-through regulated tax depreciation that is primarily related to the Pennsylvania Department of Revenue interpretive guidance regarding 100% bonus depreciation.

Outlook

Excluding special items, earnings are expected to be slightly higher in 2011, compared with 2010, as a result of higher distribution revenues from a January 1, 2011 distribution base rate increase, partially offset by higher operation and maintenance expenses.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2 and Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business," and "Item 1A. Risk Factors" in PPL Electric's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings. Among these uncertainties are the ultimate regulatory recovery of storm costs, transmission service charges and other regulatory assets.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Pennsylvania Gross Delivery Margins." "Pennsylvania Gross Delivery Margins" is a single financial performance measure of PPL Electric's Pennsylvania regulated electric delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Energy purchases from affiliate," "Other operation and maintenance" expense, which is primarily Act 129 costs, and "Taxes, other than income", which is primarily gross receipts tax. As a result, this measure represents the net revenues from PPL Electric's Pennsylvania regulated electric delivery operations. This measure is not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL Electric believes that "Pennsylvania Gross Delivery Margins" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management and PPL's Board of Directors to manage PPL Electric's operations and analyze actual results to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Pennsylvania Gross Delivery Margins" as defined by PPL Electric for the periods ended September 30. Footnotes to the reconciliations are included at the end of the nine month reconciliation tables.

	2011 Three Months			2010 Three Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues						
Retail electric	$ 454		$ 454	$ 570		$ 570
Electric revenue from affiliate	1		1	1		1
Total Operating Revenues	455		455	571		571
Operating Expenses						
Energy purchases	171		171	229		229
Energy purchases from affiliate	5		5	71		71
Other operation and maintenance	30	$ 116	146	25	$ 101	126
Depreciation		38	38		34	34
Taxes, other than income	24	2	26	29	3	32
Total Operating Expenses	230	156	386	354	138	492
Total	$ 225	$ (156)	$ 69	$ 217	$ (138)	$ 79

	2011 Nine Months			2010 Nine Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues						
Retail electric	$ 1,444		$ 1,444	$ 1,901		$ 1,901
Electric revenue from affiliate	9		9	5		5
Total Operating Revenues	1,453		1,453	1,906		1,906
Operating Expenses						
Energy purchases	591		591	848		848
Energy purchases from affiliate	15		15	250		250
Other operation and maintenance	77	$ 325	402	70	$ 307	377
Depreciation		108	108		101	101
Taxes, other than income	77	6	83	101	7	108
Total Operating Expenses	760	439	1,199	1,269	415	1,684
Total	$ 693	$ (439)	$ 254	$ 637	$ (415)	$ 222

(a) Represents amounts that are excluded from Margins.
(b) As reported on the Statement of Income.

Changes in Non-GAAP Financial Measures

The following table shows PPL Electric's non-GAAP financial measure, "Pennsylvania Gross Delivery Margins" for the periods ended September 30, as well as the change between periods. The factors that gave rise to the change are described below the table.

	Three Months			Nine Months		
	2011	2010	Change	2011	2010	Change
PA Gross Delivery Margins by Component						
Distribution	$ 179	$ 170	$ 9	$ 560	$ 506	$ 54
Transmission	46	47	(1)	133	131	2
Total	$ 225	$ 217	$ 8	$ 693	$ 637	$ 56

Distribution

The approved distribution rate case increased rates approximately 1.6% effective January 1, 2011, which improved distribution margins by $15 million and $50 million for the three and nine months ended September 30, 2011, compared with the same periods in 2010. Weather also had a $5 million favorable impact on the nine months ended September 30, 2011, compared with the same period in 2010. Weather-related variances for PPL Electric are calculated based on a ten-year historical average.

The three and nine months ended September 30, 2011 also reflect a $7 million charge to reduce a portion of the transmission service charge regulatory asset associated with a 2005 undercollection that was not included in any subsequent rate reconciliations filed with the PUC. PPL Electric plans to seek PUC approval to recover this amount. However, management cannot assert at the present time that it is probable that the previously recorded regulatory asset will be recovered. The regulatory asset will be reinstated should the PUC approve recovery of these costs.

Other Operation and Maintenance

Changes in other operation and maintenance expense for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Payroll-related costs	$ (4)	$ (1)
Contractor-related expenses (a)		7
Vegetation management (b)	2	(6)
PUC-reportable storm costs, net of insurance recovery (c)	14	17
Uncollectible accounts	5	4
Other	3	4
Total	$ 20	$ 25

(a) Primarily related to increased utilization of contractors for system reliability and asset optimization programs.
(b) Higher expenses for the nine months ended 2010 as a result of an increased focus on vegetation management primarily due to the Wire zone - Border zone program to safeguard system reliability and to comply with recently enacted legislation.
(c) During the third quarter 2011, PPL Electric reached its maximum coverage under its storm insurance, therefore a larger amount of storm costs were not offset by storm insurance in 2011 when compared to 2010.

Depreciation

Depreciation increased by $7 million for the nine months ended September 30, 2011 compared with the same period in 2010, primarily due to additions to PP&E as part of ongoing efforts to replace aging infrastructure.

Taxes, Other Than Income

Taxes, other than income decreased by $6 million and $25 million during the three and nine months ended September 30, 2011, compared with the same periods in 2010. This decrease was primarily the result of lower Pennsylvania gross receipts tax expense due to a decrease in retail electricity revenue as customers continue to select alternative suppliers in 2011. The decrease was also impacted by the amortization of a PURTA refund of $3 million and $8 million for the three and nine months ended September 30, 2011. Pennsylvania gross receipts tax and the PURTA refund are included in "Pennsylvania Gross Delivery Margins."

Other Income (Expense) - net

See Note 12 to the Financial Statements for details.

Income Taxes

Changes in income taxes for the periods ended September 30, 2011 compared to 2010 were due to:

	Three Months	Nine Months
(Lower) higher pre-tax book income	$ (4)	$ 13
Federal and state tax reserve adjustments (a)	4	4
Federal and state tax return adjustments		(2)
Depreciation not normalized (b)		(5)
Other	(1)	(1)
Total	$ (1)	$ 9

(a) In July 2010, the U.S. Tax Court ruled in PPL Electric's favor in a pending dispute with the IRS, concluding that street lighting assets are depreciable for tax purposes over seven years. As a result, PPL Electric recorded a $7 million tax benefit to federal and state income tax reserves and related deferred income taxes in the third quarter of 2010.
(b) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for Federal income tax purposes. The 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation.

Financial Condition

Liquidity and Capital Resources

PPL Electric had the following at:

	September 30, 2011	December 31, 2010
Cash and cash equivalents	$ 261	$ 204

The $57 million increase in PPL Electric's cash and cash equivalents position was primarily the net result of:

- proceeds of $645 million from the issuance of long-term debt;
- cash provided by operating activities of $261 million;
- the retirement of $458 million of long-term debt;
- capital expenditures of $357 million; and
- the payment of $76 million of common stock dividends to PPL.

PPL Electric's cash provided by operating activities improved by $134 million for the nine months ended September 30, 2011, compared with the same period in 2010, due to a $195 million increase from changes in working capital (including gross receipts tax payments, a federal income tax refund and collections of the generation supply charge). These sources of cash were partially offset by an increase in defined benefit plan contributions of $53 million.

Credit Facilities

At September 30, 2011, PPL Electric's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
Syndicated Credit Facility (a)	$ 200		$ 13	$ 187
Asset-backed Credit Facility (b)	150		n/a	150
Total PPL Electric Credit Facilities	$ 350		$ 13	$ 337

(a) In October 2011, PPL Electric amended its Syndicated Credit Facility. The amendment included extending the expiration date from December 2014 to October 2016. Under this facility, PPL Electric continues to have the ability to make cash borrowings and to request the lenders to issue letters of credit.

The commitments under this credit facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 6% of the total committed capacity.

(b) PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary pledges these assets to secure loans of up to an aggregate of $150 million from a commercial paper conduit sponsored by a financial institution. At September 30, 2011, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under this facility was limited to $86 million. In July 2011, PPL Electric and the subsidiary extended the expiration date of the credit agreement related to the asset-backed commercial paper program to July 2012.

See Note 7 to the Financial Statements for further discussion of PPL Electric's credit facilities.

Commercial Paper

PPL Electric maintains a commercial paper program for up to $200 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility. PPL Electric had no commercial paper outstanding at September 30, 2011.

Long-term Debt Securities

In July 2011, PPL Electric entered into a supplemental indenture that contains prospective amendments to its 2001 Mortgage Indenture, including amendments to reduce the amount of first mortgage bonds issuable on the basis of property additions from 100% of the cost or fair value (whichever is less, as determined in accordance with the terms of the indenture) of such property additions to 66-2/3% of such cost or fair value. The amendments became effective in the third quarter 2011.

Subsequently in July 2011, PPL Electric issued $250 million of 5.20% First Mortgage Bonds due 2041. PPL Electric received proceeds of $246 million, net of discounts and underwriting fees. The net proceeds have been or will be used for capital expenditures and other general corporate purposes.

Also in July 2011, PPL Electric redeemed the entire $400 million aggregate principal amount of its 7.125% Senior Secured Bonds due 2013 for $458 million, plus accrued interest.

In August 2011, PPL Electric issued $400 million of 3.00% First Mortgage Bonds due 2021. PPL Electric received proceeds of $394 million, net of discounts and underwriting fees. A portion of the net proceeds have been used to repay short-term debt. The balance of the net proceeds replenished cash used to redeem the 7.125% Senior Secured Bonds due 2013 in July 2011, as discussed above.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt and preferred securities of PPL Electric. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL Electric are based on information provided by PPL Electric and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL Electric. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in PPL Electric's credit ratings could result in higher borrowing costs and reduced access to capital markets.

In prior periodic reports, PPL Electric described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, PPL Electric is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to PPL Electric's ratings, but without stating what ratings have been assigned to PPL Electric or its securities. The ratings assigned by the rating agencies to PPL Electric and its respective securities may be found, without charge, on each of the respective rating agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of the then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

- Moody's affirmed its ratings for PPL Electric;
- S&P revised the outlook and lowered the issuer, senior secured, preference stock and commercial paper ratings of PPL Electric; and
- Fitch affirmed its ratings for PPL Electric.

In April 2011, following the completion of PPL's acquisition of WPD Midlands, S&P revised the outlook for PPL Electric, raised its commercial paper rating and affirmed its issuer, senior secured and preference stock ratings.

In July 2011, S&P upgraded the senior secured rating for PPL Electric's first mortgage bonds following the execution of a supplemental indenture that provided for prospective amendments to PPL Electric's 2001 Mortgage Indenture, as discussed in "Long-term Debt Securities" above.

For additional information on PPL Electric's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Electric's 2010 Form 10-K.

Risk Management

Market Risk and Credit Risk

PPL Electric has issued debt to finance its operations, which exposes it to interest rate risk. PPL Electric had no potential annual exposure to increased interest expense, based on a 10% increase in interest rates, at September 30, 2011. PPL Electric estimated that a 10% decrease in interest rates at September 30, 2011 would increase the fair value of its debt portfolio by $88 million.

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management" in PPL Electric's 2010 Form 10-K for additional information on market and credit risk.

Related Party Transactions

PPL Electric is not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with PPL Electric. See Note 11 to the Financial Statements for additional information on related party transactions between PPL Electric and affiliates.

Environmental Matters

Protection of the environment is a priority for PPL Electric and a significant element of its business activities. See "Item 1. Business - Environmental Matters" in PPL Electric's 2010 Form 10-K and Note 10 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Note 18 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: defined benefits, loss accruals, income taxes and regulatory assets and liabilities. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in PPL Electric's 2010 Form 10-K for a discussion of each critical accounting policy.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with LKE's Condensed Financial Statements and the accompanying Notes and LKE's 2011 Registration Statement. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides an overview of LKE's business strategy, financial and operational highlights and key regulatory matters.

- "Results of Operations" provides a summary of LKE's earnings and a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on LKE's Statements of Income, comparing the three and nine months ended September 30, 2011 with the same periods in 2010.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of LKE's liquidity position and credit profile. This section also includes a discussion of rating agency decisions and capital expenditure projections.

- "Financial Condition - Risk Management" provides an explanation of LKE's risk management programs relating to market and credit risk.

Overview

Introduction

LKE, headquartered in Louisville, Kentucky, is a holding company with utility operations through its subsidiaries, LG&E and KU. LG&E and KU, which constitute substantially all of LKE's operations, are regulated utilities engaged in the generation, transmission, distribution and sale of electricity, in Kentucky, Virginia and Tennessee. LG&E also engages in the distribution and sale of natural gas in Kentucky.

Successor and Predecessor Financial Presentation

LKE's Condensed Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010, and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, which are discussed in the Financial Statements in LKE's 2011 Registration Statement. The cost basis of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor periods are not comparable to the Predecessor periods; however, the core operations of LKE have not changed as a result of the acquisition.

Business Strategy

LKE's overall strategy is to provide reliable, safe and competitively priced energy to its customers.

Financial and Operational Highlights

Net Income

The three and nine months ended September 30, 2011, includes the effect of LG&E's and KU's base rate increases, which became effective August 1, 2010, partially offset by net cost increases, which have not yet been reflected in the rates charged by LG&E and KU. The three and nine months ended September 30, 2010, also included $29 million and $19 million of other income associated with the establishment of regulatory assets for previously recorded losses on interest rate swaps.

See "Results of Operations" below for further discussion and analysis of the results of operations.

TC2 Construction

LG&E and KU constructed a 760 MW capacity baseload, coal-fired unit, TC2, which is jointly owned by LG&E (14.25%) and KU (60.75%), together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency (combined 25%). With limited exceptions, LG&E and KU took care, custody and control of TC2 in January 2011. LG&E and KU and the contractor have agreed to certain amendments to the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. A number of remaining issues regarding these matters are still under discussion with the contractors. See Note 10 to the Financial Statements for additional information.

Registered Debt Exchange Offer by LKE, LG&E and KU

In April 2011, LKE, LG&E and KU each filed a Registration Statement with the SEC, related to an offer to exchange certain first mortgage bonds and senior notes issued in November 2010, in transactions not subject to registration under the Securities Act of 1933, with similar but registered securities. The 2011 Registration Statements became effective in June 2011, and the exchanges were completed in July 2011, with substantially all of the senior notes and first mortgage bonds being exchanged. See Note 7 to the Financial Statements and the 2011 Registration Statements for additional information.

Legal and Regulatory Matters

Federal

CSAPR

In July 2011, the EPA signed the CSAPR which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. This rule applies to the Kentucky plants. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions. In October 2011, the EPA proposed technical adjustments to the CSAPR to account for updated data submitted to the agency. Several states and a number of companies have filed petitions for review with the U.S. Court of Appeals for the District of Columbia Circuit challenging various provisions of the CSAPR. LG&E's and KU's initial review of the allocations under the CSAPR indicates that greater reductions in sulfur dioxide emissions will be required beginning in 2012 under the CSAPR than were required under the CAIR.

For the initial phase of the rule beginning in 2012, sulfur dioxide allowance allocations are expected to be greater than the forecasted emissions based on present operations of existing sulfur dioxide scrubbers and coal supply. However, for the second phase beginning in 2014, LG&E and KU will likely have to modify operations and dispatch of their generating fleet, including upgrades or installation of new sulfur dioxide scrubbers for certain generating units or retirement of certain other units.

With respect to nitrogen oxide emissions, the CSAPR provides a slightly lower amount of allowances compared to those under the CAIR. With uncertainty surrounding the trading program, other compliance options are being analyzed for the Kentucky fleet, such as the installation of new technology or modifications of plant operations as well as the retirement and replacement of certain coal-fired generating units. LG&E and KU are seeking recovery of their expected costs to comply with the CSAPR and certain other EPA requirements through the ECR plan filed with the KPSC in June 2011.

Additionally, the Kentucky plants may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. LG&E and KU anticipate that some of the measures required for compliance with the CSAPR such as upgraded or new sulfur dioxide scrubbers at some of their plants and retirement of certain units may also be necessary to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the economic impact to LKE could be significant. See Notes 6 and 10 to the Financial Statements for additional information on the CSAPR and the regulatory proceeding.

Kentucky and Virginia

CPCN Filing

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run station site. LG&E and KU also requested approval to purchase three additional natural gas combustion turbines from Bluegrass Generation Company, L.L.C. (Bluegrass Plant) that are expected to provide up to 495 MW of peak generation supply. LG&E and KU anticipate that the NGCC construction and Bluegrass Plant acquisition could require up to

$800 million (comprised of up to $300 million for LG&E and up to $500 million for KU) in capital costs including related transmission projects. Formal requests for recovery of the costs associated with the NGCC and Bluegrass Plant acquisition were not included in the CPCN filing with the KPSC but are expected to be included in a future base rate case filing. The KPSC issued an Order on the procedural schedule in the CPCN filing that has discovery, but no hearing, scheduled through early February 2012. A KPSC order on the CPCN filing is anticipated in the second quarter of 2012. See Note 6 to the Financial Statements for additional information.

ECR Filing - Environmental Upgrades

In June 2011, in order to achieve compliance with new and pending mandated federal EPA regulations, LG&E and KU filed ECR plans with the KPSC requesting approval to install environmental upgrades for certain of their coal-fired plants along with the recovery of their expected $1.4 billion and $1.1 billion in associated capital costs, as well as operating expenses as incurred. The ECR plans included upgrades that will be made to certain of their coal-fired generating stations to continue to be compliant with EPA regulations. See Notes 6 and 10 to the Financial Statements for additional information.

Virginia Rate Case

In April 2011, KU filed an application with the VSCC requesting an annual increase in electric base rates for its Virginia jurisdictional customers of $9 million, or 14%. The proposed increase reflected a rate of return on rate base of 8%, based on a return on equity of 11%, inclusive of expenditures to complete TC2, all new sulfur dioxide scrubbers, recovery over five years of a 2009 storm regulatory asset and various other adjustments to revenue and expenses for the test year ended December 31, 2010. In September 2011, a settlement stipulation was reached between KU and the VSCC Staff and filed with the VSCC for consideration. In October 2011, the VSCC approved the stipulation with two modifications that were accepted by KU. The VSCC issued an Order closing the proceeding in October 2011. The approved annual revenue increase is $7 million with new base rates effective November 1, 2011.

Results of Operations

As previously noted, LKE's results for the three and nine months ended September 30, 2011 are on a basis of accounting different from its results for the three and nine months ended September 30, 2010. When discussing LKE's results of operations for 2011 compared with 2010 material differences resulting from the different bases of accounting will be isolated for purposes of comparability. See "Overview - Successor and Predecessor Financial Presentation" for further information.

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods. Due to weather, revenue and earnings are generally highest during the first and third quarters and lowest during the second quarter.

Earnings

Net Income for the periods ended September 30 was:

	Three Months			Nine Months		
	2011 Successor	2010 Predecessor	% Change	2011 Successor	2010 Predecessor	% Change
Operating Revenues	$ 736	$ 719	2	$ 2,140	$ 2,035	5
Fuel	245	250	(2)	666	668	
Energy purchases	32	39	(18)	179	200	(11)
Other operation and maintenance	187	177	6	566	509	11
Depreciation	84	73	15	249	211	18
Taxes, other than income	10	5	100	28	19	47
Total Operating Expenses	558	544	3	1,688	1,607	5
Other Income (Expense) - net		31	(100)	(1)	17	(106)
Interest Expense	36	45	(20)	108	137	(21)
Income Taxes	52	59	(12)	125	112	12
Loss from Discontinued Operations (net of income taxes)	(1)			(1)	(2)	(50)
Net Income	$ 89	$ 102	(13)	$ 217	$ 194	12

The changes in the components of Net Income for the periods ended September 30, 2011 and 2010 were due to the following factors as provided in the table below.

	Three Months	Nine Months
Margin	$ 19	$ 107
Other operation and maintenance	(4)	(42)
Depreciation	(10)	(32)
Taxes, other than income	(5)	(9)
Other Income (Expense) - net	(31)	(18)
Interest Expense	9	29
Income Taxes	9	(14)
Special items		2
Total	$ (13)	$ 23

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.

- Higher other operation and maintenance expense resulted from higher steam and distribution maintenance costs. Higher steam costs for the three and nine-month periods of $3 million and $22 million were due to increased scope of scheduled outages and higher variable expenses from increased generation. Higher distribution maintenance costs for the three and nine-month periods of $3 million and $14 million resulted from higher storm costs, increased amortization of wind and ice storms restoration-related costs together with a hazardous tree removal project initiated in August 2010. The nine-month period was partially offset by $6 million of 2009 winter storm restoration expenses being reclassified to a regulatory asset in 2011, as these costs are expected to be recovered in rates.

- Higher depreciation was primarily due to TC2 commencing dispatch in January 2011 resulting in increases of $8 million and $23 million for the three and nine-month periods. In addition, the E.W. Brown sulfur dioxide scrubber was placed in-service in June 2010 resulting in a $7 million increase for the nine-month period.

- Higher other expense - net was primarily due to $29 million and $19 million of other income for the three and nine months ended September 30, 2010, the result of previously recorded losses on interest rate swaps being reclassified as regulatory assets during the three-month period ended September 30, 2010.

- Lower interest expense of $4 million and $14 million for the three and nine-month periods was due to decreases in interest rates and decreases of $5 million and $19 million for the three and nine-month periods were due to lower long-term debt balances.

- Lower pre-tax income resulted in lower income tax of $7 million for the three-month period and higher pre-tax book income resulted in higher income tax of $14 million for the nine-month period.

Management considers energy marketing of expected economic generation capacity in excess of expected load requirements and a terminated lease with The Big Rivers Electric Corporation (BREC) to be special items. See Note 14 to the Financial Statements for additional information on energy marketing of expected economic generation capacity in excess of expected load requirements and LKE's 2011 Registration Statement for information about BREC. The following are the special items for the periods ended September 30:

	Income Statement Line Item	Three Months 2011 Successor	Three Months 2010 Predecessor	Nine Months 2011 Successor	Nine Months 2010 Predecessor
Special Items, net of tax benefit (expense):					
Energy-related economic activity ($1), $0, $0, $0	Operating revenues	$ 1		$ 1	
BREC terminated lease $1, $0, $1, $1	Discontinued operations	(1)		(1)	$ (2)
Total		$		$	$ (2)

Outlook

Excluding special items, in 2011 compared with 2010, LKE expects higher retail revenues and lower financing costs partially offset by higher depreciation and other operating costs. Retail revenues are expected to increase as a result of the Kentucky rate cases and recoveries associated with environmental investments. Lower financing costs are expected from lower debt balances resulting from an equity contribution provided by PPL at acquisition and the issuance in late 2010 of first mortgage bonds, which LKE used to repay higher cost debt. Depreciation and other operating costs are expected to increase resulting from increases in regulated utility plant including commencing dispatch of TC2 in January 2011 to serve customer demand.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Business," and "Risk Factors" in LKE's 2011 Registration Statement for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margin

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margin." Margin is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margin is a single financial performance measure of LKE's operations. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expenses and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. As a result, this measure represents the net revenues from LKE's operations. LKE believes that Margin provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management to manage LKE's operations and analyze actual results compared to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margin" as defined by LKE for the periods ended September 30.

	2011 Three Months - Successor			2010 Three Months - Predecessor		
	Margin	**Other (a)**	**Operating Income (b)**	**Margin**	**Other (a)**	**Operating Income (b)**
Operating Revenues	$ 734	$ 2	$ 736	$ 720	$ (1)	$ 719
Operating Expenses						
Fuel	245		245	250		250
Energy purchases	32		32	39		39
Other operation and maintenance	26	161	187	20	157	177
Depreciation	12	72	84	11	62	73
Taxes, other than income		10	10		5	5
Total Operating Expenses	315	243	558	320	224	544
Total	$ 419	$ (241)	$ 178	$ 400	$ (225)	$ 175

	2011 Nine Months - Successor			2010 Nine Months - Predecessor		
	Margin	**Other (a)**	**Operating Income (b)**	**Margin**	**Other (a)**	**Operating Income (b)**
Operating Revenues	$ 2,139	$ 1	$ 2,140	$ 2,034	$ 1	$ 2,035
Operating Expenses						
Fuel	666		666	668		668
Energy purchases	179		179	200		200
Other operation and maintenance	67	499	566	52	457	509
Depreciation	37	212	249	31	180	211
Taxes, other than income		28	28		19	19
Total Operating Expenses	949	739	1,688	951	656	1,607
Total	$ 1,190	$ (738)	$ 452	$ 1,083	$ (655)	$ 428

(a) Represents amounts that are excluded from Margin.
(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins were higher by $19 million and $107 million during the three and nine months ended September 30, 2011, compared with the same periods in 2010. The positive impact mainly resulted from a rate increase, which became effective in August 2010.

Other Operation and Maintenance

Changes in other operation and maintenance expense for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following.

	Three Months	Nine Months
Steam maintenance (a)		$ 11
PPL support charges	$ 3	12
Steam operations (b)	3	11
Distribution maintenance (c)	3	8
Fuel for generation (d)	3	10
Other	(2)	5
Total	$ 10	$ 57

(a) Primarily due to increased scope of scheduled outages including those at Ghent and Green River.
(b) Variable expenses increased due to increased generation, the result of TC2 commencing dispatch in 2011.
(c) The nine months ended September 30, 2011, resulted from higher storm costs along with increased amortization of wind and ice storms restoration-related costs and a hazardous tree removal project initiated in August 2010. This increase was partially offset by $6 million of 2009 winter storm restoration expenses being reclassified to a regulatory asset in 2011, as these costs are expected to be recovered in rates.
(d) Fuel handling costs are included in fuel for electric generation on the Statements of Income for the three and nine months ended September 30, 2010, and are in other operation and maintenance expense on the Statements of Income for the three and nine months ended September 30, 2011.

Depreciation

Changes in depreciation for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following:

	Three Months	Nine Months
TC2 (dispatch began in January 2011)	$ 8	$ 23
E.W. Brown sulfur dioxide scrubber (placed in-service in June 2010)		7
Other	3	8
Total	$ 11	$ 38

Other Income (Expense) - net

Changes in other income (expense) - net for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following:

	Three Months	Nine Months
Other income included in the periods ending September 30, 2010, resulted from the establishment of regulatory assets for previously recorded losses on interest rate swaps	$ (29)	$ (19)
Other	(2)	1
Total	$ (31)	$ (18)

Interest Expense

Changes in interest expense for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following:

	Three Months	Nine Months
Interest rates (a)	$ (4)	$ (14)
Long-term debt balances (b)	(5)	(19)
Other		4
Total	$ (9)	$ (29)

(a) Interest rates on the first mortgage bonds and senior notes were lower than the rates on the loans from Fidelia Corporation and other E.ON AG affiliates, which were replaced.
(b) LKE's long-term debt principal balance was $886 million lower as of September 30, 2011 compared to 2010, primarily due to an equity contribution from PPL of $1.6 billion at the time of acquisition.

Income Taxes

Changes in income taxes for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following:

	Three Months	Nine Months
Higher (lower) pre-tax book income	$ (7)	$ 14
Other		(1)
Total	$ (7)	$ 13

Financial Condition

Liquidity and Capital Resources

LKE had the following at:

	September 30, 2011	December 31, 2010
Cash and cash equivalents	$ 170	$ 11
Short-term investments (a)		163
	$ 170	$ 174
Short-term debt (b)		$ 163

(a) Represents tax-exempt bonds issued by Louisville/Jefferson County, Kentucky, on behalf of LG&E that were purchased from the remarketing agent in 2008. Such bonds were remarketed to unaffiliated investors in January 2011. See Note 17 to the Financial Statements for additional information.
(b) Represents borrowings under LG&E's $400 million syndicated credit facility. See Note 7 to the Financial Statements for additional information.

The $159 million increase in LKE's cash and cash equivalents position was primarily the net result of:

- cash provided by operating activities of $674 million;
- proceeds of $250 million from the issuance of long-term debt;
- capital expenditures of $287 million; and
- the payment of $469 million of distributions to PPL.

LKE's cash provided by operating activities increased by $264 million for the nine months ended September 30, 2011, compared with the same period in 2010, primarily due to:

- an increase in net income of $23 million adjusted for non-cash effects of $145 million (depreciation of $38 million, deferred income taxes and investment tax credits of $123 million and the recording of a regulatory asset for previously recorded losses on interest rate swaps of $22 million, partially offset by defined benefit plans - expense of $17 million, unrealized (gains) losses on derivatives of $14 million and other noncash items of $7 million);
- a net decrease in working capital from accounts receivable, accounts payable and unbilled revenue of $74 million due to the timing of cash receipts and payments, an increase in base rates effective August 2010, colder weather (more heating degree days) in December 2010 as compared with December 2009, and milder weather (fewer cooling degree days) in September 2011 as compared with September 2010;
- a decrease in backstop energy and aluminum production credit payments of $45 million made in 2010 under the smelter contract; and
- a decrease in fuel of $44 million, which was driven by higher volumes purchased in 2010 in preparation for the commercial operation of TC2 originally expected in mid-2010, along with an increase in fuel consumption due to the dispatch of TC2 beginning in January 2011; partially offset by
- an increase in discretionary defined benefit plan contributions of $105 million made in order to achieve LKE's long-term funding requirements.

Credit Facilities

At September 30, 2011, LKE's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
LKE Credit Facility with a subsidiary of PPL Energy Supply	$ 300			$ 300
LG&E Credit Facility (a) (d)	400			400
KU Credit Facilities (a) (b) (d)	598		$ 198	400
Total Credit Facilities (c)	$ 1,298		$ 198	$ 1,100

(a) In June 2011, LG&E and KU each amended its respective Syndicated Credit Facility such that the fees and the spread to benchmark interest rates for borrowings depend upon the respective company's senior secured long-term debt rating rather than the senior unsecured debt rating.
(b) In April 2011, KU entered into a new $198 million letter of credit facility that has been used to issue letters of credit to support outstanding tax exempt bonds. The facility matures in April 2014. In August 2011, KU amended its letter of credit facility such that the fees depend upon KU's senior secured long-term debt rating rather than the senior unsecured debt rating.
(c) Total borrowings outstanding under LKE's credit facilities decreased on a net basis by $163 million since December 31, 2010.
(d) In October 2011, LG&E and KU each amended its respective syndicated credit facilities. The amendments included extending the expiration dates from December 2014 to October 2016. Under these facilities, LG&E and KU each continue to have the ability to make cash borrowings and to request the lenders to issue letters of credit.

The commitments under LKE's Syndicated Credit Facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 9% of the total committed capacity; however, the PPL affiliate provides a commitment of approximately 23% of the total facilities listed above.

See Note 7 to the Financial Statements for further discussion of LKE's credit facilities.

Long-term Debt Securities

In January 2011, LG&E remarketed $163 million of variable rate tax-exempt revenue bonds, which were issued on its behalf by Louisville/Jefferson County, Kentucky to unaffiliated investors in a term rate mode, bearing interest at 1.90% into 2012. The proceeds from the remarketing were used to repay a $163 million borrowing under LG&E's Syndicated Credit Facility.

At September 30, 2011, LKE's tax-exempt revenue bonds that are in the form of auction rate securities and total $231 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the nine months ended September 30, 2011, the weighted-average rate on LG&E's and KU's auction rate bonds in total was 0.27%.

LKE's long-term debt securities activity through September 30, 2011 was:

	Debt	
	Issuances	Retirement
LKE Senior Notes	$ 250	
Total Cash Flow Impact	$ 250	
Non-cash Exchanges		
LKE Senior Notes (a)	$ 875	$ (875)
LG&E First Mortgage Bonds (a)	535	(535)
KU First Mortgage Bonds (a)	1,500	(1,500)
Total Exchanged	$ 2,910	$ (2,910)
Net Increase	$ 250	

(a) In April 2011, LKE, LG&E and KU each filed a 2011 Registration Statement with the SEC related to offers to exchange securities issued in November 2010 in transactions not registered under the Securities Act of 1933 with similar but registered securities. The 2011 Registration Statements became effective in June 2011, and the exchanges were completed in July 2011, with substantially all securities being exchanged.

LKE's long-term debt securities activity since September 30, 2011 consists of the retirement of the $2 million LG&E and KU Capital LLC Medium Term Note which matured on November 1, 2011.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of LKE and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of LKE and its subsidiaries are based on information provided by LKE and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of LKE or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in LKE's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets.

In LKE's 2011 Registration Statement, LKE described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, LKE is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to LKE's ratings, but without stating what ratings have been assigned to LKE or its subsidiaries, or their securities. The ratings assigned by the rating agencies to LKE and its subsidiaries and their respective securities may be found, without charge, on each of the respective ratings agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of PPL's then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

- Moody's affirmed all of the ratings for LKE and all of its rated subsidiaries;
- S&P revised the outlook for LKE, LG&E and KU and lowered the issuer and senior unsecured ratings of LKE and the issuer, senior secured and short-term ratings of LG&E and KU; and
- Fitch affirmed all of the ratings for LKE and all of its rated subsidiaries.

In April 2011, S&P took the following actions following the completion of PPL's acquisition of WPD Midlands:

- revised the outlook for LKE and all of its rated subsidiaries;
- raised the short-term ratings of LG&E and KU; and
- affirmed all of the long-term ratings for LKE and its rated subsidiaries.

In May 2011, S&P downgraded the long-term rating of four series of pollution control bonds issued on behalf of KU by one notch in connection with the substitution of the letters of credit enhancing these four bonds.

In September 2011, Moody's affirmed the issuer ratings for LG&E and KU and all of the ratings for LKE.

Ratings Triggers

LKE and its subsidiaries have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, commodity transportation and storage and interest rate instruments, which contain provisions requiring LKE and its subsidiaries to post additional collateral, or permitting the counterparty to terminate the contract, if LKE's or its subsidiaries' credit ratings were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at September 30, 2011. At September 30, 2011, if LKE's or its subsidiaries' credit ratings had been below investment grade, the maximum amount that LKE would have been required to post as additional collateral to counterparties was $92 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation, gas supply, marketing and trading operations and interest rate contracts.

Capital Expenditures

The table below shows LKE's capital expenditure projections at September 30, 2011.

	Projected				
	2011	**2012**	**2013**	**2014**	**2015**
Construction expenditures (a)					
Generating facilities	$ 137	$ 128	$ 155	$ 158	$ 126
Transmission and distribution facilities	219	266	303	289	294
Environmental (b)	163	711	1,140	1,065	824
Other	26	52	48	42	67
Total Construction Expenditures	$ 545	$ 1,157	$ 1,646	$ 1,554	$ 1,311

(a) Construction expenditures include AFUDC, which is not expected to be significant for the years 2011 through 2015.
(b) Includes approximately $700 million of currently estimable costs related to replacement generation units due to EPA regulations not recoverable through the ECR mechanism. LKE expects to recover these costs over a period equivalent to the related depreciable lives of the assets through base rates established by future rate cases.

LKE's capital expenditure projections for the years 2011 through 2015 total approximately $6.2 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes current estimates for LKE's environmental projects related to new and anticipated EPA compliance standards. Actual costs may be significantly lower or higher depending on the final requirements. Certain environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism.

For additional information, see "Liquidity and Capital Resources" in LKE's 2011 Registration Statement.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about LKE's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk

LG&E's and KU's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E and KU are subject to commodity price risk for only a small portion of on-going business operations. LKE conducts energy trading and risk management activities to maximize the value of the physical assets at times when the assets are not required to serve LG&E's and KU's customers, and LKE manages energy commodity risk using derivative instruments, including swaps and forward contracts.

The balances and changes in the net fair value of LKE's commodity derivative contracts for the three and nine months ended September 30, 2011 and 2010 were not significant. See Note 14 to the Financial Statements for additional information.

Interest Rate Risk

LKE and its subsidiaries have issued debt to finance their operations, which exposes them to interest rate risk. LKE utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under PPL's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of LKE's debt portfolio due to changes in the absolute level of interest rates.

At September 30, 2011, LKE's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

LKE is also exposed to changes in the fair value of its debt portfolio. LKE estimated that a 10% decrease in interest rates at September 30, 2011, would increase the fair value of its debt portfolio by $121 million.

At September 30, 2011, LKE had the following interest rate hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates
Economic hedges			
Interest rate swaps (b)	$ 179	$ (58)	$ (4)

(a) Includes accrued interest.
(b) LKE utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While LKE is exposed to changes in the fair value of these instruments, any changes in the fair value of such economic hedges are recorded in regulatory assets and liabilities. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in interest rates.

Credit Risk

LKE is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. LKE maintains credit policies and procedures to limit counterparty credit risk including evaluating credit ratings and financial information along with having certain counterparties post margin if the credit exposure exceeds certain thresholds.
LKE is exposed to potential losses as a result of nonpayment by customers. LKE maintains an allowance for doubtful accounts primarily composed of accounts aged more than four months. Accounts are written off as management determines them uncollectible.

Certain of LKE's derivative instruments contain provisions that require it to provide immediate and on-going collateralization of derivative instruments in net liability positions based upon LKE's credit ratings from each of the major credit rating agencies. See Notes 13 and 14 to the Financial Statements for information regarding exposure and the risk management activities.

Related Party Transactions

LKE is not aware of any material ownership interest or operating responsibility by senior management of LKE, LG&E or KU in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with LKE. See Note 11 to the Financial Statements for additional information on related party transactions between LKE and its affiliates.

Environmental Matters

Protection of the environment is a major priority for LKE and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to LKE's air emissions, water discharges and the management of hazardous and solid waste, among other areas, and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures; or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc. and may impact the costs for their products or their demand for LKE's services. See "Business - Environmental Matters" in LKE's 2011 Registration Statement and Note 10 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Note 18 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations and require estimates or other judgments of matters inherently uncertain: price risk management, regulatory mechanisms, defined benefits, asset impairment, loss accruals, AROs, income taxes, regulatory assets and liabilities and business combinations - purchase price allocation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in LKE's 2011 Registration Statement for a discussion of each critical accounting policy.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with LG&E's Condensed Financial Statements and the accompanying Notes and LG&E's 2011 Registration Statement. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides an overview of LG&E's business strategy, financial and operational highlights and key regulatory matters.

- "Results of Operations" provides a summary of LG&E's earnings and a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on LG&E's Statements of Income, comparing the three and nine months ended September 30, 2011 with the same periods in 2010.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of LG&E's liquidity position and credit profile. This section also includes a discussion of rating agency decisions and capital expenditure projections.

- "Financial Condition - Risk Management" provides an explanation of LG&E's risk management programs relating to market and credit risk.

Overview

Introduction

LG&E, headquartered in Louisville, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky.

Successor and Predecessor Financial Presentation

LG&E's Condensed Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010, and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, which are discussed in the Financial Statements in LG&E's 2011 Registration Statement. The cost basis of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor periods are not comparable to the Predecessor periods; however, the core operations of LG&E have not changed as a result of the acquisition.

Business Strategy

LG&E's overall strategy is to provide reliable, safe and competitively priced energy to its customers.

Financial and Operational Highlights

Net Income

The three and nine months ended September 30, 2011, includes the effect of LG&E's base rate increase, which became effective August 1, 2010, partially offset by net cost increases, which have not yet been reflected in the rates charged by LG&E. The three and nine months ended September 30, 2010, also included $29 million and $19 million of other income associated with the establishment of regulatory assets for previously recorded losses on interest rate swaps.

See "Results of Operations" below for further discussion and analysis of the results of operations.

TC2 Construction

LG&E and KU constructed a 760 MW capacity baseload, coal-fired unit, TC2, which is jointly owned by LG&E (14.25%) and KU (60.75%), together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency (combined 25%). With limited exceptions, LG&E and KU took care, custody and control of TC2 in January 2011. LG&E and KU and the contractor have agreed to certain amendments to the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. A number of remaining issues regarding these matters are still under discussion with the contractors. See Note 10 to the Financial Statements for additional information.

Registered Debt Exchange Offer by LG&E

In April 2011, LG&E filed a Registration Statement with the SEC, related to an offer to exchange certain first mortgage bonds issued in November 2010, in transactions not subject to registration under the Securities Act of 1933, with similar but registered securities. The 2011 Registration Statement became effective in June 2011, and the exchange was completed in July 2011 with all of the first mortgage bonds being exchanged. See Note 7 to the Financial Statements and LG&E's 2011 Registration Statement for additional information.

Legal and Regulatory Matters

Federal

CSAPR

In July 2011, the EPA signed the CSAPR which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. This rule applies to the Kentucky plants. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions. In October 2011, the EPA proposed technical adjustments to the CSAPR to account for updated data submitted to the agency. Several states and a number of companies have filed petitions for review with the U.S. Court of Appeals for the District of Columbia Circuit challenging various provisions of the CSAPR. LG&E's initial review of the allocations under the CSAPR indicates that greater reductions in sulfur dioxide emissions will be required beginning in 2012 under the CSAPR than were required under the CAIR.

For the initial phase of the rule beginning in 2012, sulfur dioxide allowance allocations are expected to be greater than the forecasted emissions based on present operations of existing scrubbers and coal supply. However, for the second phase beginning in 2014, LG&E will likely have to modify operations and dispatch of its generating fleet, including upgrades or installation of new sulfur dioxide scrubbers for certain generating units or retirement of certain other units.

With respect to nitrogen oxide emissions, the CSAPR provides a slightly lower amount of allowances compared to those under the CAIR. With uncertainty surrounding the trading program, other compliance options are being analyzed for the Kentucky plants, such as the installation of new technology or modifications of plant operations as well as the retirement and replacement of certain coal-fired generating units. LG&E is seeking recovery of its expected costs to comply with the CSAPR and certain other EPA requirements through the ECR plan filed with the KPSC in June 2011.

Additionally, LG&E's plants may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. LG&E anticipates that some of the measures required for compliance with the CSAPR such as upgraded or new sulfur dioxide scrubbers at some of its plants and retirement of certain units may also be necessary to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the economic impact to LG&E could be significant. See Notes 6 and 10 to the Financial Statements for additional information on the CSAPR and the regulatory proceeding.

Kentucky

CPCN Filing

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run station site. LG&E and KU also requested approval to purchase three additional natural gas combustion turbines from Bluegrass Generation Company, L.L.C. (Bluegrass Plant) that are expected to provide up to 495 MW of peak generation supply. LG&E and KU anticipate that the NGCC construction and Bluegrass Plant acquisition could require up to $800 million (comprised of up to $300 million for LG&E and up to $500 million for KU) in capital costs including related transmission projects. Formal requests for recovery of the costs associated with the NGCC and Bluegrass Plant acquisition were not included in the CPCN filing with the KPSC but are expected to be included in a future base rate case filing. A KPSC order on the CPCN filing is anticipated in the second quarter of 2012. The KPSC issued an Order on the procedural schedule in the CPCN filing that has discovery, but no hearing, scheduled through early February 2012. See Note 6 to the Financial Statements for additional information.

ECR Filing - Environmental Upgrades

In June 2011, in order to achieve compliance with new and pending mandated federal EPA regulations, LG&E filed an ECR plan with the KPSC requesting approval to install environmental upgrades for certain of its coal-fired plants along with the recovery of the expected $1.4 billion in associated capital costs as well as operating expenses as incurred. The ECR plan included upgrades that will be made to certain of LG&E's coal-fired generating stations to continue to be compliant with EPA regulations. See Notes 6 and 10 to the Financial Statements for additional information.

Results of Operations

As previously noted, LG&E's results for the three and nine months ended September 30, 2011 are on a basis of accounting different from its results for the three and nine months ended September 30, 2010. When discussing LG&E's results of operations for 2011 compared with 2010 material differences resulting from the different bases of accounting will be isolated for purposes of comparability. See "Overview - Successor and Predecessor Financial Presentation" for further information.

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods. Due to weather, revenue and earnings are generally highest during the first and third quarters and lowest during the second quarter.

Earnings

Net Income for the periods ended September 30 was:

	Three Months			Nine Months		
	2011 Successor	2010 Predecessor	% Change	2011 Successor	2010 Predecessor	% Change
Operating Revenues	$ 340	$ 327	4	$ 1,035	$ 972	6
Fuel	98	104	(6)	265	277	(4)
Energy purchases	31	23	35	180	146	23
Other operation and maintenance	91	85	7	272	250	9
Depreciation	37	35	6	110	104	6
Taxes, other than income	5	3	67	14	11	27
Total Operating Expenses	262	250	5	841	788	7
Other Income (Expense) - net		29	(100)		17	(100)
Interest Expense	11	11		34	34	
Income Taxes	24	35	(31)	58	60	(3)
Net Income	$ 43	$ 60	(28)	$ 102	$ 107	(5)

The changes in the components of Net Income for the periods ended September 30, 2011 and 2010 were due to the following factors as provided in the table below.

	Three Months	Nine Months
Margin	$ 7	$ 39
Other operation and maintenance	(4)	(16)
Depreciation	(2)	(10)
Taxes, other than income	(2)	(3)
Other Income (Expense) - net	(29)	(17)
Income Taxes	13	2
Total	$ (17)	$ (5)

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.

- Higher other operation and maintenance expense resulted from higher distribution maintenance costs of $2 million and $8 million for the three and nine-month periods due to amortization of storm restoration related costs, together with a hazardous tree removal project initiated in August 2010.

- Higher other expense - net was primarily due to $29 million and $19 million of other income for the three and nine months ended September 30, 2010, the result of previously recorded losses on interest rate swaps being reclassified as regulatory assets during the three-month period ended September 30, 2010.

- Lower pre-tax income resulted in lower income taxes of $11 million and $3 million for the three and nine-month periods.

Outlook

LG&E expects higher retail revenues and lower financing costs in 2011 compared to 2010 due to the issuance in late 2010 of first mortgage bonds that LG&E used to repay higher cost debt, offset by lower other income and higher depreciation. Retail revenues are expected to increase as a result of the Kentucky rate case. The reduction in other income (expense) - net is the result of the recognition of regulatory assets associated with the interest rate swaps in 2010 while higher depreciation is projected due to commencing dispatch of TC2 in January 2011 to serve customer demand.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Business," and "Risk Factors" in LG&E's 2011 Registration Statement for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margin

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margin." Margin is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margin is a single financial performance measure of LG&E's operations. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expenses and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. As a result, this measure represents the net revenues from LG&E's operations. LG&E believes that Margin provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margin" as defined by LG&E for the periods ended September 30.

	2011 Three Months - Successor			2010 Three Months - Predecessor		
	Margin	**Other (a)**	**Operating Income (b)**	**Margin**	**Other (a)**	**Operating Income (b)**
Operating Revenues	$ 339	$ 1	$ 340	$ 328	$ (1)	$ 327
Operating Expenses						
Fuel	98		98	104		104
Energy purchases	31		31	23		23
Other operation and maintenance	10	81	91	8	77	85
Depreciation	1	36	37	1	34	35
Taxes, other than income		5	5		3	3
Total Operating Expenses	140	122	262	136	114	250
Total	$ 199	$ (121)	$ 78	$ 192	$ (115)	$ 77

	2011 Nine Months - Successor			2010 Nine Months - Predecessor		
	Margin	Other (a)	Operating Income (b)	Margin	Other (a)	Operating Income (b)
Operating Revenues	$ 1,034	$ 1	$ 1,035	$ 971	$ 1	$ 972
Operating Expenses						
Fuel	265		265	277		277
Energy purchases	180		180	146		146
Other operation and maintenance	30	242	272	24	226	250
Depreciation	2	108	110	6	98	104
Taxes, other than income		14	14		11	11
Total Operating Expenses	477	364	841	453	335	788
Total	$ 557	$ (363)	$ 194	$ 518	$ (334)	$ 184

(a) Represents amounts that are excluded from Margin.
(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins were higher by $7 million and $39 million during the three and nine months ended September 30, 2011, compared with the same periods in 2010. The positive impact mainly resulted from a rate increase, which became effective in August 2010.

Other Operation and Maintenance

Changes in other operation and maintenance expense for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following.

	Three Months	Nine Months
Distribution maintenance (a)	$ 2	$ 8
Administrative and general		5
Fuel for generation (b)	2	5
Other	2	4
Total	$ 6	$ 22

(a) The three and nine-month periods increased due to amortization of storm restoration-related costs along with a hazardous tree removal project initiated in August 2010.
(b) Fuel handling costs are included in fuel for electric generation on the Statements of Income for the three and nine months ended September 30, 2010, and are in other operation and maintenance expense on the Statements of Income for the three and nine months ended September 30, 2011.

Depreciation

Depreciation increased by $2 million and $6 million for the three and nine months ended September 30, 2011, compared with the same periods in 2010. The increase was primarily due to commencing dispatch of TC2 to serve customer demands beginning in January 2011.

Other Income (Expense) - net

Changes in other income (expense) - net for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following:

	Three Months	Nine Months
Other income included in the periods ending September 30, 2010, resulted from the establishment of regulatory assets for previously recorded losses on interest rate swaps	$ (29)	$ (19)
Other		2
Total	$ (29)	$ (17)

Income Taxes

Changes in income taxes for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following:

	Three Months	Nine Months
Lower pre-tax book income	$ (11)	$ (3)
Other		1
Total	$ (11)	$ (2)

Financial Condition

Liquidity and Capital Resources

LG&E had the following at:

	September 30, 2011	December 31, 2010
Cash and cash equivalents	$ 75	$ 2
Short-term investments (a)		163
	$ 75	$ 165
Short-term debt (b)		$ 163

(a) Represents tax-exempt bonds issued by Louisville/Jefferson County, Kentucky, on behalf of LG&E that were purchased from the remarketing agent in 2008. Such bonds were remarketed to unaffiliated investors in January 2011. See Note 17 to the Financial Statements for additional information.
(b) Represents borrowings under LG&E's $400 million syndicated credit facility. See Note 7 to the Financial Statements for additional information.

The $73 million increase in LG&E's cash and cash equivalents position was primarily the net result of:

- cash provided by operating activities of $274 million;
- capital expenditures of $122 million; and
- the payment of $55 million of common stock dividends.

LG&E's cash provided by operating activities increased by $112 million for the nine months ended September 30, 2011, compared with the same period in 2010, primarily due to:

- a decrease in net income of $5 million adjusted for non-cash effects of $31 million (depreciation of $6 million, defined benefit plans - expense of $7 million, deferred income taxes and investment tax credits of $8 million, the recording of a regulatory asset for previously recorded losses on interest rate swaps of $22 million and other noncash items of $2 million, partially offset by unrealized (gains) losses on derivatives of $14 million);
- a net decrease in working capital from accounts receivable, accounts payable and unbilled revenue of $38 million due to the timing of cash receipts and payments, an increase in base rates effective August 2010, colder weather (more heating degree days) in December 2010 as compared with December 2009, and milder weather (fewer cooling degree days) in September 2011 as compared with September 2010;
- a decrease in fuel of $27 million, which was driven by higher volumes purchased in 2010 in preparation for the commercial operation of TC2 originally expected in mid-2010; and
- a decrease in cash refunded to customers of $26 million due to prior period over recoveries related to the gas supply clause filings in 2009; partially offset by
- an increase in discretionary defined benefit plan contributions of $44 million made in order to achieve LG&E's long-term funding requirements.

Credit Facilities

At September 30, 2011, LG&E's committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
Syndicated Credit Facility (a) (b)	$ 400			$ 400

(a) In June 2011, LG&E amended its Syndicated Credit Facility such that the fees and the spread to benchmark interest rates for borrowings depend upon LG&E's senior secured long-term debt rating rather than the senior unsecured debt rating. Total borrowings outstanding under this facility decreased on a net basis by $163 million since December 31, 2010.
(b) In October 2011, LG&E amended its Syndicated Credit Facility. The amendment included extending the expiration date from December 2014 to October 2016. Under this facility LG&E continues to have the ability to make cash borrowings and to request the lenders to issue letters of credit.

The commitments under LG&E's Syndicated Credit Facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 6% of the total committed capacity available to LG&E.

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to $400 million at market-based rates (based on highly rated commercial paper issues). At September 30, 2011, there was no balance outstanding. At December 31, 2010, $12 million was outstanding. The interest rate for the period ended December 31, 2010 was 0.25%.

See Note 7 to the Financial Statements for further discussion of LG&E's credit facilities.

Long-term Debt Securities

In January 2011, LG&E remarketed $163 million of variable rate tax-exempt revenue bonds, which were issued on its behalf by Louisville/Jefferson County, Kentucky to unaffiliated investors in a term rate mode, bearing interest at 1.90% into 2012. The proceeds from the remarketing were used to repay a $163 million borrowing under LG&E's Syndicated Credit Facility.

At September 30, 2011, LG&E's tax-exempt revenue bonds that are in the form of auction rate securities and total $135 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the nine months ended September 30, 2011, the weighted-average rate on LG&E's auction rate bonds in total was 0.26%.

Since June 30, 2011, there have been $535 million of issuances and $535 million of retirements of LG&E's First Mortgage Bonds related to the non-cash exchange of bonds. In April 2011, LG&E filed a 2011 Registration Statement with the SEC related to offers to exchange securities issued in November 2010 in transactions not registered under the Securities Act of 1933 with similar but registered securities. The 2011 Registration Statement became effective in June 2011 and the exchanges were completed in July 2011, with all securities being exchanged.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of LG&E. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of LG&E are based on information provided by LG&E and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of LG&E. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in LG&E's credit ratings could result in higher borrowing costs and reduced access to capital markets.

In LG&E's 2011 Registration Statement, LG&E described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, LG&E is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to LG&E's ratings, but without stating what ratings have been assigned to LG&E's securities. The ratings assigned by the rating agencies to LG&E and its securities may be found, without charge, on each of the respective ratings agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of PPL's then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

- Moody's affirmed the ratings for LG&E;
- S&P revised the outlook for LG&E and lowered the issuer, senior secured and short-term ratings of LG&E; and
- Fitch affirmed the ratings for LG&E.

In April 2011, S&P took the following actions following the completion of PPL's acquisition of WPD Midlands:

- revised the outlook for LG&E;
- raised the short-term ratings of LG&E; and
- affirmed the long-term ratings for LG&E.

In September 2011, Moody's affirmed the issuer rating for LG&E.

Ratings Triggers

LG&E has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, commodity transportation and storage and interest rate instruments, which contain provisions requiring LG&E to post additional collateral, or permitting the counterparty to terminate the contract, if LG&E's credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at September 30, 2011. At September 30, 2011, if LG&E's credit ratings had been below investment grade, the maximum amount that LG&E would have been required to post as additional collateral to counterparties was $79 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation, gas supply, marketing and trading operations and interest rate contracts.

Capital Expenditures

The table below shows LG&E's capital expenditure projections at September 30, 2011.

	Projected				
	2011	2012	2013	2014	2015
Construction expenditures					
Generating facilities	$ 71	$ 56	$ 95	$ 97	$ 47
Transmission and distribution facilities	114	147	153	146	155
Environmental (a)	24	271	586	501	396
Other	6	26	25	21	34
Total Construction Expenditures	$ 215	$ 500	$ 859	$ 765	$ 632

(a) Includes approximately $200 million of currently estimable costs related to replacement generation units due to EPA regulations not recoverable through the ECR mechanism. LG&E expects to recover these costs over a period equivalent to the related depreciable lives of the assets through base rates established by future rate cases.

LG&E's capital expenditure projections for the years 2011 through 2015 total approximately $3 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes current estimates for LG&E's environmental projects related to new and anticipated EPA compliance standards. Actual costs may be significantly lower or higher depending on the final requirements. Certain environmental compliance costs incurred by LG&E in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism.

For additional information, see "Liquidity and Capital Resources" in LG&E's 2011 Registration Statement.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about LG&E's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk

LG&E's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E is subject to commodity price risk for only a small portion of on-going business operations. LG&E conducts energy trading and risk management activities to maximize the value of the physical assets at times when the assets are not required to serve its customers, and LG&E manages energy commodity risk using derivative instruments, including swaps and forward contracts.

The balances and changes in the net fair value of LG&E's commodity derivative contracts for the three and nine months ended September 30, 2011 and 2010 were not significant. See Note 14 to the Financial Statements for additional information.

Interest Rate Risk

LG&E has issued debt to finance its operations, which exposes it to interest rate risk. LG&E utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under PPL's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of LG&E's debt portfolio due to changes in the absolute level of interest rates.

At September 30, 2011, LG&E's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

LG&E is also exposed to changes in the fair value of its debt portfolio. LG&E estimated that a 10% decrease in interest rates at September 30, 2011, would increase the fair value of its debt portfolio by $27 million.

At September 30, 2011, LG&E had the following interest rate hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates
Economic hedges			
Interest rate swaps (b)	$ 179	$ (58)	$ (4)

(a) Includes accrued interest.
(b) LG&E utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While LG&E is exposed to changes in the fair value of these instruments, any changes in the fair value of such economic hedges are recorded in regulatory assets and liabilities. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in interest rates.

Credit Risk

LG&E is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. LG&E maintains credit policies and procedures to limit counterparty credit risk including evaluating credit ratings and financial information along with having certain counterparties post margin if the credit exposure exceeds certain thresholds.
LG&E is exposed to potential losses as a result of nonpayment by customers. LG&E maintains an allowance for doubtful accounts primarily composed of accounts aged more than four months. Accounts are written off as management determines them uncollectible.

Certain of LG&E's derivative instruments contain provisions that require it to provide immediate and on-going collateralization of derivative instruments in net liability positions based upon LG&E's credit ratings from each of the major credit rating agencies. See Notes 13 and 14 to the Financial Statements for information regarding exposure and the risk management activities.

Related Party Transactions

LG&E is not aware of any material ownership interest or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with LG&E. See Note 11 to the Financial Statements for additional information on related party transactions between LG&E and its affiliates.

Environmental Matters

Protection of the environment is a major priority for LG&E and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to LG&E's air emissions, water discharges and the management of hazardous and solid waste, among other areas, and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures; or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc. and may impact the costs for their products or their demand for LG&E's services. See "Business - Environmental Matters" in LG&E's 2011 Registration Statement and Note 10 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Note 18 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations and require estimates or other judgments of matters inherently uncertain: price risk management, regulatory mechanisms, defined benefits, asset impairment, loss accruals, AROs, income taxes, regulatory assets and liabilities and business combinations - purchase price allocation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in LG&E's 2011 Registration Statement for a discussion of each critical accounting policy.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with KU's Condensed Financial Statements and the accompanying Notes and KU's 2011 Registration Statement. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides an overview of KU's business strategy, financial and operational highlights and key regulatory matters.

- "Results of Operations" provides a summary of KU's earnings and a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on KU's Statements of Income, comparing the three and nine months ended September 30, 2011 with the same periods in 2010.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of KU's liquidity position and credit profile. This section also includes a discussion of rating agency decisions and capital expenditure projections.

- "Financial Condition - Risk Management" provides an explanation of KU's risk management programs relating to market and credit risk.

Overview

Introduction

KU, headquartered in Lexington, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electricity, in Kentucky, Virginia and Tennessee.

Successor and Predecessor Financial Presentation

KU's Condensed Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010, and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, which are discussed in the Financial Statements in KU's 2011 Registration Statement. The cost basis of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor periods are not comparable to the Predecessor periods; however, the core operations of KU have not changed as a result of the acquisition.

Business Strategy

KU's overall strategy is to provide reliable, safe and competitively priced energy to its customers.

Financial and Operational Highlights

Net Income

The three and nine months ended September 30, 2011, includes the effect of KU's base rate increase, which became effective August 1, 2010, partially offset by net cost increases, which have not yet been reflected in the rates charged by KU.

See "Results of Operations" below for further discussion and analysis of the results of operations.

TC2 Construction

KU and LG&E constructed a 760 MW capacity baseload, coal-fired unit, TC2, which is jointly owned by KU (60.75%) and LG&E (14.25%), together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency (combined 25%). With limited exceptions, KU and LG&E took care, custody and control of TC2 in January 2011. KU and LG&E and the contractor have agreed to certain amendments to the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. A number of remaining issues regarding these matters are still under discussion with the contractors. See Note 10 to the Financial Statements for additional information.

Registered Debt Exchange Offer by KU

In April 2011, KU filed a Registration Statement with the SEC, related to an offer to exchange certain first mortgage bonds issued in November 2010, in transactions not subject to registration under the Securities Act of 1933, with similar but registered securities. The 2011 Registration Statement became effective in June 2011, and the exchange was completed in July 2011 with substantially all of the first mortgage bonds being exchanged. See Note 7 to the Financial Statements and KU's 2011 Registration Statement for additional information.

Legal and Regulatory Matters

Federal

CSAPR

In July 2011, the EPA signed the CSAPR which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. This rule applies to the Kentucky plants. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions. In October 2011, the EPA proposed technical adjustments to the CSAPR to account for updated data submitted to the agency. Several states and a number of companies have filed petitions for review with the U.S. Court of Appeals for the District of Columbia Circuit challenging various provisions of the CSAPR. KU's initial review of the allocations under the CSAPR indicates that greater reductions in sulfur dioxide emissions will be required beginning in 2012 under the CSAPR than were required under the CAIR.

For the initial phase of the rule beginning in 2012, sulfur dioxide allowance allocations are expected to greater than the forecasted emissions based on present operations of existing scrubbers and coal supply. However, for the second phase beginning in 2014, KU will likely have to modify operations and dispatch of its generating fleet, including upgrades or installation of new sulfur dioxide scrubbers for certain generating units or retirement of certain other units.

With respect to nitrogen oxide emissions, the CSAPR provides a slightly lower amount of allowances compared to those under the CAIR. With uncertainty surrounding the trading program, other compliance options are being analyzed for KU's fleet, such as the installation of new technology or modifications of plant operations as well as the retirement and replacement of certain coal-fired generating units. KU is seeking recovery of its expected costs to comply with the CSAPR and certain other EPA requirements through the ECR plan filed with the KPSC in June 2011.

Additionally, KU's plants may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. KU anticipates that some of the measures required for compliance with the CSAPR such as upgraded or new sulfur dioxide scrubbers at some of its plants and retirement of certain units may also be necessary to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the economic impact to KU could be significant. See Notes 6 and 10 to the Financial Statements for additional information on the CSAPR and the regulatory proceeding.

Kentucky and Virginia

CPCN Filing

In September 2011, KU and LG&E filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run station site. KU and LG&E also requested approval to purchase three additional natural gas combustion turbines from Bluegrass Generation Company, L.L.C. (Bluegrass Plant) that are expected to provide up to 495 MW of peak generation supply. KU and LG&E anticipate that the NGCC construction and Bluegrass Plant acquisition could require up to $800 million (comprised of up to $500 million for KU and up to $300 million for LG&E) in capital costs including related transmission projects. Formal requests for recovery of the costs associated with the NGCC and Bluegrass Plant acquisition were not included in the CPCN filing with the KPSC but are expected to be included in a future base rate case filing. The KPSC issued an Order on the procedural schedule in the CPCN filing that has discovery, but no hearing, scheduled through early February 2012. A KPSC order on the CPCN filing is anticipated in the second quarter of 2012. See Note 6 to the Financial Statements for additional information.

ECR Filing - Environmental Upgrades

In June 2011, in order to achieve compliance with new and pending mandated federal EPA regulations, KU filed an ECR plan with the KPSC requesting approval to install environmental upgrades for certain of its coal-fired plants along with the recovery of the expected $1.1 billion in associated capital costs as well as operating expenses as incurred. The ECR plan included upgrades that will be made to certain of KU's coal-fired generating stations to continue to be compliant with EPA regulations. See Notes 6 and 10 to the Financial Statements for additional information.

Virginia Rate Case

In April 2011, KU filed an application with the VSCC requesting an annual increase in electric base rates for its Virginia jurisdictional customers of $9 million, or 14%. The proposed increase reflected a rate of return on rate base of 8%, based on a return on equity of 11%, inclusive of expenditures to complete TC2, all new sulfur dioxide scrubbers, recovery over five years of a 2009 storm regulatory asset and various other adjustments to revenue and expenses for the test year ended December 31, 2010. In September 2011, a settlement stipulation was reached between KU and the VSCC Staff and filed with the VSCC for consideration. In October 2011, the VSCC approved the stipulation with two modifications that were accepted by KU. The VSCC issued an Order closing the proceeding in October 2011. The approved annual revenue increase is $7 million with new base rates effective November 1, 2011.

Results of Operations

As previously noted, KU's results for the three and nine months ended September 30, 2011 are on a basis of accounting different from its results for the three and nine months ended September 30, 2010. When discussing KU's results of operations for 2011 compared with 2010 material differences resulting from the different bases of accounting will be isolated for purposes of comparability. See "Overview - Successor and Predecessor Financial Presentation" for further information.

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods. Due to weather, revenue and earnings are generally highest during the first and third quarters and lowest during the second quarter.

Earnings

Net Income for the periods ended September 30 was:

	Three Months			Nine Months		
	2011 Successor	2010 Predecessor	% Change	2011 Successor	2010 Predecessor	% Change
Operating Revenues	$ 420	$ 416	1	$ 1,191	$ 1,146	4
Fuel	147	146	1	401	391	3
Energy purchases	25	42	(40)	85	138	(38)
Other operation and maintenance	90	83	8	274	240	14
Depreciation	47	38	24	139	106	31
Taxes, other than income	5	2	150	14	8	75
Total Operating Expenses	314	311	1	913	883	3
Other Income (Expense) - net		1	(100)	1	2	(50)
Interest Expense	18	20	(10)	53	60	(12)
Income Taxes	32	32		82	76	8
Net Income	$ 56	$ 54	4	$ 144	$ 129	12

The changes in the components of Net Income for the periods ended September 30, 2011 and 2010 were due to the following factors as provided in the table below.

	Three Months	Nine Months
Margin	$ 13	$ 68
Other operation and maintenance	(3)	(23)
Depreciation	(7)	(24)
Taxes, other than income	(3)	(6)
Other Income (Expense) - net	(1)	(1)
Interest Expense	3	7
Income Taxes		(6)
Total	$ 2	$ 15

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.

- Higher other operation and maintenance resulted from higher steam expenses of $4 million and $24 million for the three and nine-month periods, resulting from scheduled maintenance outages at the Ghent and Green River plants, along with higher variable expenses from increased generation.

- TC2 commenced dispatched in January 2011, resulting in a higher depreciation of $7 million and $19 million for the three and nine-month periods. In addition, the E.W. Brown sulfur dioxide scrubber was placed in-service in June 2010 resulting in a $7 million increase for the nine-month period.

- Higher pre-tax income resulted in higher income tax of $8 million for the nine-month period.

Outlook

KU expects higher retail revenues and lower financing costs in 2011 compared to 2010 due to the issuance in late 2010 of first mortgage bonds that KU used to repay higher cost debt, partially offset by higher depreciation. Retail revenues are expected to increase as a result of the Kentucky rate case and recoveries associated with environmental investments. Depreciation is expected to increase due to commencing dispatch of TC2 in January 2011 to serve customer demand.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Business," and "Risk Factors" in KU's 2011 Registration Statement for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margin

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margin." Margin is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margin is a single financial performance measure of KU's operations. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expenses and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. As a result, this measure represents the net revenues from KU's operations. KU believes that Margin provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margin" as defined by KU for the periods ended September 30.

	2011 Three Months - Successor			2010 Three Months - Predecessor		
	Margin	Other (a)	Operating Income (b)	Margin	Other (a)	Operating Income (b)
Operating Revenues	$ 419	$ 1	$ 420	$ 416		$ 416
Operating Expenses						
Fuel	147		147	146		146
Energy purchases	25		25	42		42
Other operation and maintenance	14	76	90	10	$ 73	83
Depreciation	12	35	47	10	28	38
Taxes, other than income		5	5		2	2
Total Operating Expenses	198	116	314	208	103	311
Total	$ 221	$ (115)	$ 106	$ 208	$ (103)	$ 105

	2011 Nine Months - Successor			2010 Nine Months - Predecessor		
	Margin	Other (a)	Operating Income (b)	Margin	Other (a)	Operating Income (b)
Operating Revenues	$ 1,191		$ 1,191	$ 1,146		$ 1,146
Operating Expenses						
Fuel	401		401	391		391
Energy purchases	85		85	138		138
Other operation and maintenance	37	$ 237	274	26	$ 214	240
Depreciation	35	104	139	26	80	106
Taxes, other than income		14	14		8	8
Total Operating Expenses	558	355	913	581	302	883
Total	$ 633	$ (355)	$ 278	$ 565	$ (302)	$ 263

(a) Represents amounts that are excluded from Margin.
(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins were higher by $13 million and $68 million during the three and nine months ended September 30, 2011, compared with the same periods in 2010. The positive impact mainly resulted from a rate increase, which became effective in August 2010.

Other Operation and Maintenance

Changes in other operation and maintenance expense for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following:

	Three Months	Nine Months
Steam maintenance (a)	$ 1	$ 15
Steam operations (b)	3	9
Fuel for generation (c)	2	5
Administrative and general	3	6
Other	(2)	(1)
Total	$ 7	$ 34

(a) Primarily due to increased scope of scheduled outages including those at Ghent and Green River.
(b) Variable expenses increased due to increased generation, the result of TC2 commencing dispatch in 2011.
(c) Fuel handling costs are included in fuel for electric generation on the Statements of Income for the three and nine months ended September 30, 2010, and are in other operation and maintenance expense on the Statements of Income for the three and nine months ended September 30, 2011.

Depreciation

Changes in depreciation for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following:

	Three Months	Nine Months
TC2 (dispatch began in January 2011)	$ 7	$ 19
E.W. Brown sulfur dioxide scrubber (placed in-service in June 2010)		7
Other	2	7
Total	$ 9	$ 33

Interest Expense

Changes in interest expense for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following:

	Three Months	Nine Months
Interest rates (a)	$ (5)	$ (14)
Long-term debt balances (b)	2	5
Other	1	2
Total	$ (2)	$ (7)

(a) Interest rates on the first mortgage bonds were lower than the rates on the loans from Fidelia Corporation, which were replaced.
(b) KU's long-term debt principal balance was $169 million higher as of September 30, 2011 compared to 2010.

Income Taxes

There were no changes in income taxes for the three months ended September 30, 2011, compared with the same period in 2010. Changes in income taxes for the nine months ended September 30, 2011, compared with the same period in 2010, were due to:

	Nine Months
Higher pre-tax book income	$ 8
Other	(2)
Total	$ 6

Financial Condition

Liquidity and Capital Resources

KU had the following at:

	September 30, 2011	December 31, 2010
Cash and cash equivalents	$ 94	$ 3

The $91 million increase in KU's cash and cash equivalents position was primarily the net result of:

- cash provided by operating activities of $352 million;
- a net decrease in short-term debt of $10 million;
- capital expenditures of $161 million; and
- the payment of $88 million of common stock dividends.

KU's cash provided by operating activities increased by $52 million for the nine months ended September 30, 2011, compared with the same period in 2010, primarily due to:

- an increase in net income of $15 million adjusted for non-cash effects of $66 million (depreciation of $33 million, defined benefit plans - expense of $8 million and deferred income taxes and investment tax credits of $36 million, partially offset by other noncash items of $11 million) and
- a decrease in fuel of $17 million, which was driven by higher volumes purchased in 2010 in preparation for the commercial operation of TC2 originally expected in mid-2010, along with an increase in fuel consumption due to the dispatch of TC2 beginning in January 2011; partially offset by
- the timing of ECR collections of $28 million; and
- an increase in discretionary defined benefit plan contributions of $29 million made in order to achieve KU's long-term funding requirements.

Credit Facilities

At September 30, 2011, KU's committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
Syndicated Credit Facility (a) (c)	$ 400			$ 400
Letter of Credit Facility (b)	198		$ 198	

(a) In June 2011, KU amended its Syndicated Credit Facility such that the fees and the spread to benchmark interest rates for borrowings depend upon KU's senior secured long-term debt rating rather than the senior unsecured debt rating.
(b) In April 2011, KU entered into a new $198 million letter of credit facility that has been used to issue letters of credit to support outstanding tax-exempt bonds. The facility matures in April 2014. In August 2011, KU amended its letter of credit facility such that the fees depend upon KU's senior secured long-term debt rating rather than the senior unsecured debt rating.
(c) In October 2011, KU amended its Syndicated Credit Facility. The amendment included extending the expiration date from December 2014 to October 2016. Under this facility KU continues to have the ability to make cash borrowings and to request the lenders to issue letters of credit.

The commitments under KU's Syndicated Credit Facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 19% of the total committed capacity available to KU.

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to $400 million at market-based rates (based on highly rated commercial paper issues). At September 30, 2011, there was no balance outstanding. At December 31, 2010, $10 million was outstanding. The interest rate for the period ended December 31, 2010 was 0.25%.

See Note 7 to the Financial Statements for further discussion of KU's credit facilities.

Long-term Debt Securities

At September 30, 2011, KU's tax-exempt revenue bonds that are in the form of auction rate securities and total $96 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the nine months ended September 30, 2011, the weighted-average rate on KU's auction rate bonds in total was 0.29%.

Since June 30, 2011, there have been $1.5 billion of issuances and $1.5 billion of retirements of KU's First Mortgage Bonds related to the non-cash exchange of bonds. In April 2011, KU filed a 2011 Registration Statement with the SEC related to offers to exchange securities issued in November 2010 in transactions not registered under the Securities Act of 1933 with similar but registered securities. The 2011 Registration Statement became effective in June 2011 and the exchanges were completed in July 2011, with substantially all securities being exchanged.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of KU. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of KU are based on information provided by KU and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of KU. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in KU's credit ratings could result in higher borrowing costs and reduced access to capital markets.

In KU's 2011 Registration Statement, KU described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, KU is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to KU's ratings, but without stating what ratings have been assigned to KU's securities. The ratings assigned by the rating agencies to KU and its securities may be found, without charge, on each of the respective ratings agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of PPL's then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

- Moody's affirmed the ratings for KU;
- S&P revised the outlook for KU and lowered the issuer, senior secured and short-term ratings of KU; and
- Fitch affirmed the ratings for KU.

In April 2011, S&P took the following actions following the completion of PPL's acquisition of WPD Midlands:

- revised the outlook for KU;
- raised the short-term ratings of KU; and
- affirmed the long-term ratings for KU.

In May 2011, S&P downgraded the long-term rating of four series of pollution control bonds issued on behalf of KU by one notch in connection with the substitution of the letters of credit enhancing these four bonds.

In September 2011, Moody's affirmed the issuer rating for KU.

Ratings Triggers

KU has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, and commodity transportation and storage, which contain provisions requiring KU to post additional collateral, or permitting the counterparty to terminate the contract, if KU's credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at September 30, 2011. At September 30, 2011, if KU's credit ratings had been below investment grade, the maximum amount that KU would have been required to post as additional collateral to counterparties was $13 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations.

Capital Expenditures

The table below shows KU's capital expenditure projections at September 30, 2011.

	Projected				
	2011	2012	2013	2014	2015
Construction expenditures (a)					
Generating facilities	$ 67	$ 72	$ 60	$ 61	$ 79
Transmission and distribution facilities	105	119	150	143	139
Environmental (b)	139	440	554	564	428
Other	19	26	23	21	33
Total Construction Expenditures	$ 330	$ 657	$ 787	$ 789	$ 679

(a) Construction expenditures include AFUDC, which is not expected to be significant for the years 2011 through 2015.
(b) Includes approximately $500 million of currently estimable costs related to replacement generation units due to EPA regulations not recoverable through the ECR mechanism. KU expects to recover these costs over a period equivalent to the related depreciable lives of the assets through base rates established by future rate cases.

KU's capital expenditure projections for the years 2011 through 2015 total approximately $3.2 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes current estimates for KU's environmental projects related to new and anticipated EPA compliance standards. Actual costs may be significantly lower or higher depending on the final requirements. Certain environmental compliance costs incurred by KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism.

For additional information, see "Liquidity and Capital Resources" in KU's 2011 Registration Statement.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about KU's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk

KU's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, KU is subject to commodity price risk for only a small portion of on-going business operations. KU conducts energy trading and risk management activities to maximize the value of the physical assets at times when the assets are not required to serve its customers, and KU manages energy commodity risk using derivative instruments, including swaps and forward contracts.

The balances and changes in the net fair value of KU's commodity derivative contracts for the three and nine months ended September 30, 2011 and 2010 were not significant.

Interest Rate Risk

KU has issued debt to finance its operations, which exposes it to interest rate risk. At September 30, 2011, KU's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant. KU is also exposed to changes in the fair value of its debt portfolio. KU estimated that a 10% decrease in interest rates at September 30, 2011, would increase the fair value of its debt portfolio by $70 million.

KU had no interest rate hedges outstanding as of September 30, 2011.

Credit Risk

KU is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. KU maintains credit policies and procedures to limit counterparty credit risk including evaluating credit ratings and financial information along with having certain counterparties post margin if the credit exposure exceeds certain thresholds.
KU is exposed to potential losses as a result of nonpayment by customers. KU maintains an allowance for doubtful accounts primarily composed of accounts aged more than four months. Accounts are written off as management determines them uncollectible.

Certain of KU's derivative instruments contain provisions that require it to provide immediate and on-going collateralization of derivative instruments in net liability positions based upon KU's credit ratings from each of the major credit rating agencies. See Notes 13 and 14 to the Financial Statements for information regarding exposure and the risk management activities.

Related Party Transactions

KU is not aware of any material ownership interest or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with KU. See Note 11 to the Financial Statements for additional information on related party transactions between KU and its affiliates.

Environmental Matters

Protection of the environment is a major priority for KU and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to KU's air emissions, water discharges and the management of hazardous and solid waste, among other areas, and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures; or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc. and may impact the costs for their products or their demand for KU's services. See "Business - Environmental Matters" in KU's 2011 Registration Statement and Note 10 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Note 18 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations and require estimates or other judgments of matters inherently uncertain: price risk management, regulatory mechanisms, defined benefits, asset impairment, loss accruals, AROs, income taxes, regulatory assets and liabilities and business combinations - purchase price allocation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in KU's 2011 Registration Statement for a discussion of each critical accounting policy.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in each Registrant's "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

PPL Corporation; PPL Energy Supply, LLC; PPL Electric Utilities Corporation; LG&E and KU Energy LLC; Louisville Gas and Electric Company; and Kentucky Utilities Company

(a) Evaluation of disclosure controls and procedures.

The registrants' principal executive officers and principal financial officers, based on their evaluation of the registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of September 30, 2011, the registrants' disclosure controls and procedures are effective to ensure that material information relating to the registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

PPL Corporation

PPL acquired Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc ("WPD Midlands") on April 1, 2011. These companies are included in PPL's 2011 financial statements as of the date of the acquisition, on a one-month lag. On a pro forma basis, WPD Midlands would have accounted for approximately 22% of PPL's net income for both the three and nine months ended September 30, 2011. WPD Midlands represented 21% and 27% of PPL's total assets and net assets at September 30, 2011. The internal controls over financial reporting of WPD Midlands were excluded from a formal evaluation of effectiveness of PPL's disclosure controls and procedures. This decision was based upon the significance of these companies to PPL, and the timing of integration efforts underway to transition WPD Midlands' processes, information technology systems and other components of internal control over financial reporting to the internal control structure of PPL. PPL has expanded its consolidation and disclosure controls and procedures to include the acquired companies, and PPL continues to assess the current internal control over financial reporting at WPD Midlands. Risks related to the increased account balances are partially mitigated by PPL's expanded controls and PPL's existing policy of consolidating foreign subsidiaries on a one-month lag, which provides management additional time for review and analysis of WPD Midlands' results and their incorporation into PPL's consolidated financial statements.

(b) Change in internal control over financial reporting.

PPL Corporation; PPL Energy Supply, LLC; PPL Electric Utilities Corporation; LG&E and KU Energy LLC; Louisville Gas and Electric Company; and Kentucky Utilities Company

The registrants' principal executive officers and principal financial officers have concluded that there were no changes in the registrants' internal control over financial reporting during the registrants' third fiscal quarter that have materially affected, or are reasonably likely to materially affect the registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For additional information regarding various pending administrative and judicial proceedings involving regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in PPL's, PPL Energy Supply's and PPL Electric's 2010 Form 10-K and "Business - Legal Proceedings" in LKE's, LG&E's and KU's 2011 Registration Statements; and
- Notes 5, 6 and 10 to the Financial Statements.

Item 1A. Risk Factors

PPL Corporation

The risk factors discussed below are related to PPL's April 1, 2011 acquisition of WPD Midlands, as described in Note 8 to the Financial Statements. They should be read in conjunction with and update and supplement the risk factors disclosed in PPL's "Item 1A. Risk Factors" of the 2010 Form 10-K.

We have issued securities that contain provisions that could restrict our payment of dividends.
We and our subsidiaries currently have outstanding $2.6 billion principal amount of junior subordinated notes, and we and our subsidiaries may in the future issue additional junior subordinated notes or similar securities, that in certain circumstances, including the failure to pay current interest, would limit our ability to pay dividends on our common stock. While we currently do not anticipate that any of these circumstances will occur, no assurance can be given that these circumstances will not occur in the future.

Risks Relating to the WPD Midlands Acquisition
The WPD Midlands acquisition may not achieve its intended results, including anticipated cost savings, efficiencies and other benefits.
Although we completed the WPD Midlands acquisition with the expectation that it will result in various benefits, including a significant amount of cost savings and other financial and operational benefits, there can be no assurance regarding when or the extent to which we will be able to realize these cost-savings or other benefits. Achieving the anticipated benefits, including cost savings, is subject to a number of uncertainties, including whether the businesses acquired can be operated in the manner we intend. Events outside of our control, including but not limited to regulatory changes or developments in the U.K., could also adversely affect our ability to realize the anticipated benefits from the WPD Midlands acquisition. Thus, the integration may be unpredictable, subject to delays or changed circumstances, and we can give no assurance that the acquired businesses will perform in accordance with our expectations or that our expectations with respect to integration or cost savings as a result of the acquisition will materialize. In addition, we expect to incur additional costs and charges in connection with integrating the acquired businesses, including severance payments and other restructuring and transitional charges. Additional unanticipated costs may also arise during the integration process. The integration of the WPD (East Midlands) and WPD (West Midlands) businesses may place an additional burden on our management and internal resources, and the diversion of management's attention during the integration and restructuring process could have an adverse effect on our business, financial condition and expected operating results.

The WPD Midlands acquisition exposes us to additional risks and uncertainties with respect to the acquired businesses and their operations.
The WPD Midlands acquisition will rebalance our business mix to a greater percentage of regulated operations. While we believe this should help mitigate our exposure to downturns in the wholesale power markets, it will increase our dependence on rate-of-return regulation. Although we are already exposed to risks relating to rate-of-return regulation, the WPD Midlands acquisition will increase these risks.

The acquired businesses will generally be subject to risks similar to those that we are subject to in our existing U.K. businesses. These include:

- Under current regulation by Ofgem, our U.K. regulated businesses' allowed revenue is determined by the distribution price controls set out under the terms of their respective distribution licenses, and is typically set by Ofgem every five years. The current price control period runs from April 1, 2010 to March 31, 2015. Furthermore, our ability to earn additional revenue under Ofgem regulations is highly dependent on our ability to achieve certain operational efficiency, customer service and other incentives, and we can provide no assurance that we will be able to achieve such incentives.

- There are various changes being contemplated by Ofgem to the current electricity distribution, gas transmission and gas distribution regulatory frameworks in the U.K. and there can be no assurance as to the effects such changes will have on our U.K. regulated businesses in the future, including the acquired businesses. In particular, in October 2010, Ofgem announced a new regulatory framework that is expected to become effective in April 2015 for the electricity distribution sector in the U.K. The framework, known as RIIO (Revenues = Incentives + Innovation + Outputs), focuses on sustainability, environmental-focused output measures, promotion of low carbon energy networks and financing of new investments. The new regulatory framework is expected to have a wide-ranging effect on electricity distribution companies operating in the U.K., including changes to price controls and price review periods. Our U.K. regulated businesses' compliance with this new regulatory framework may result in significant additional capital expenditures, increases in operating and compliance costs and adjustments to our pricing models.

- Ofgem has formal powers to propose modifications to each distribution license. We are not currently aware of any planned modification to any of our U.K. regulated businesses distribution licenses that would result in a material adverse effect to the U.K. regulated businesses and PPL. There can, however, be no assurance that a restrictive modification will not be introduced in the future, which could have an adverse effect on the operations and financial condition of the U.K. regulated businesses and PPL.

- A failure to operate our U.K. networks properly could lead to compensation payments or penalties, or a failure to make capital expenditures in line with agreed investment programs could lead to deterioration of the network. While our U.K. regulated businesses' investment programs are targeted to maintain asset conditions over a five-year period and reduce customer interruptions and customer minutes lost over that period, no assurance can be provided that these regulatory requirements will be met.

- A failure by any of our U.K. regulated businesses to comply with the terms of a distribution license may lead to the issuance of an enforcement order by Ofgem that could have an adverse impact on PPL. Ofgem has powers to levy fines of up to 10 percent of revenue for any breach of a distribution license or, in certain circumstances, such as insolvency, the distribution license itself may be revoked. Unless terminated in the circumstances mentioned above, a distribution license continues indefinitely until revoked by Ofgem following no less than 25 years' written notice. Our U.K. regulated businesses have in place policies, systems and processes to help ensure compliance with their distribution licenses and relevant legislation. While none of our U.K. regulated businesses are currently subject to any formal or informal investigation by Ofgem in relation to enforcement matters and we are not aware of any area of material non-compliance, there can be no guarantee that our regulated U.K. businesses will not be subject to investigation or enforcement action in the future.

- We will be subject to increased foreign currency exchange rate risks because a greater portion of our cash flows and reported earnings will be generated by our U.K. business operations. These risks relate primarily to changes in the relative value of the British pound sterling and the U.S. dollar between the time we initially invest U.S. dollars in our U.K. businesses and the time that cash is repatriated to the U.S. from the U.K., including cash flows from our U.K. businesses that may be distributed as future dividends to our shareholders. In addition, our consolidated reported earnings on a U.S. GAAP basis may be subject to increased earnings translation risk, which is the result of the conversion of earnings as reported in our U.K. businesses on a British pound sterling basis to a U.S. dollar basis in accordance with U.S. GAAP requirements.

- Environmental costs and liabilities associated with aspects of the acquired businesses may differ from those of our existing business, including with respect to our electricity distribution, gas transmission and certain former operations, as well as with governmental and other third party proceedings.

We have incurred and will in the future incur significant transaction and acquisition-related costs in connection with financing and integrating the WPD Midlands acquisition.

We have incurred significant non-recurring costs associated with the WPD Midlands acquisition. Significant additional expenses will likely be incurred to complete the restructuring of WPD (East Midlands) and WPD (West Midlands) in order to achieve the operational efficiencies and other benefits expected to result in enhanced financial returns from those businesses.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Except as noted below for PPL Energy Supply, there have been no material changes in PPL Energy Supply's and PPL Electric's risk factors from those disclosed in "Item 1A. Risk Factors" of each Registrant's 2010 Form 10-K or in "Risk Factors" in LKE's, LG&E's and KU's 2011 Registration Statements.

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global, representing 100% of the outstanding membership interest of PPL Global, to PPL Energy Supply's parent, PPL Energy Funding. As a result, PPL Energy Supply is no longer subject to "Risks Related to International Regulated Segment."

Item 6. Exhibits

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits have heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [_] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

4(a)	- Supplemental Indenture No. 13, dated as of August 1, 2011, made and entered into by PPL Electric Utilities Corporation and The Bank of New York Mellon, as Trustee, under the Indenture dated as of August 1, 2001 (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated August 23, 2011)
4(b)	- Supplemental Indenture No. 2, dated as of September 1, 2011, made and entered into by LG&E and KU Energy LLC and The Bank of New York Mellon, as Trustee, under the Indenture dated as of November 1, 2010 (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 30, 2011)
4(c)	- Registration Rights Agreement, dated September 29, 2011, between LG&E and KU Energy LLC and the Initial Purchasers (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 30, 2011)
10(a)	- Amendment No. 1 to Credit Agreement, dated as of October 19, 2011, to Revolving Credit Agreement dated as of October 19, 2010 among PPL Energy Supply, LLC, the Lenders party thereto and Wells Fargo National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 25, 2011)
10(b)	- Amendment No. 1 to Credit Agreement, dated as of October 19, 2011, to Revolving Credit Agreement dated as of December 31, 2010 among PPL Electric Utilities Corporation, the Lenders party thereto and Wells Fargo National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 25, 2011)
10(c)	- Amendment No. 2 to Credit Agreement, dated as of October 19, 2011, to Revolving Credit Agreement dated as of November 1, 2010 among Louisville Gas and Electric Company, the Lenders party thereto and Wells Fargo National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 25, 2011)
10(d)	- Amendment No. 2 to Credit Agreement, dated as of October 19, 2011, to Revolving Credit Agreement dated as of November 1, 2010 among Kentucky Utilities Company, the Lenders party thereto and Wells Fargo National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 25, 2011)
*12(a)	- PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
*12(b)	- PPL Energy Supply, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
*12(c)	- PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
*12(d)	- LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
*12(e)	- Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
*12(f)	- Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended September 30, 2011, filed by the following officers for the following companies:

*31(a)	- James H. Miller for PPL Corporation
*31(b)	- Paul A. Farr for PPL Corporation
*31(c)	- James H. Miller for PPL Energy Supply, LLC
*31(d)	- Paul A. Farr for PPL Energy Supply, LLC
*31(e)	- David G. DeCampli for PPL Electric Utilities Corporation
*31(f)	- Vincent Sorgi for PPL Electric Utilities Corporation

*31(g)	-	Victor A. Staffieri for LG&E and KU Energy LLC
*31(h)	-	S. Bradford Rives for LG&E and KU Energy LLC
*31(i)	-	Victor A. Staffieri for Louisville Gas and Electric Company
*31(j)	-	S. Bradford Rives for Louisville Gas and Electric Company
*31(k)	-	Victor A. Staffieri for Kentucky Utilities Company
*31(l)	-	S. Bradford Rives for Kentucky Utilities Company

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended September 30, 2011, furnished by the following officers for the following companies:

*32(a)	-	James H. Miller for PPL Corporation
*32(b)	-	Paul A. Farr for PPL Corporation
*32(c)	-	James H. Miller for PPL Energy Supply, LLC
*32(d)	-	Paul A. Farr for PPL Energy Supply, LLC
*32(e)	-	David G. DeCampli for PPL Electric Utilities Corporation
*32(f)	-	Vincent Sorgi for PPL Electric Utilities Corporation
*32(g)	-	Victor A. Staffieri for LG&E and KU Energy LLC
*32(h)	-	S. Bradford Rives for LG&E and KU Energy LLC
*32(i)	-	Victor A. Staffieri for Louisville Gas and Electric Company
*32(j)	-	S. Bradford Rives for Louisville Gas and Electric Company
*32(k)	-	Victor A. Staffieri for Kentucky Utilities Company
*32(l)	-	S. Bradford Rives for Kentucky Utilities Company

101.INS	-	XBRL Instance Document for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.SCH	-	XBRL Taxonomy Extension Schema for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.CAL	-	XBRL Taxonomy Extension Calculation Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.DEF	-	XBRL Taxonomy Extension Definition Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.LAB	-	XBRL Taxonomy Extension Label Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.PRE	-	XBRL Taxonomy Extension Presentation Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation
(Registrant)

PPL Energy Supply, LLC
(Registrant)

Date: November 8, 2011

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller
(Chief Accounting Officer)

PPL Electric Utilities Corporation
(Registrant)

Date: November 8, 2011

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and
Chief Accounting Officer

LG&E and KU Energy LLC
(Registrant)

Louisville Gas and Electric Company
(Registrant)

Kentucky Utilities Company
(Registrant)

Date: November 8, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
(Principal Financial Officer)

Exhibit 12(a)

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	9 Months Ended Sep. 30 2011	Years Ended December 31, 2010	2009	2008	2007	2006
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	**$ 1,481**	$ 1,239	$ 538	$ 1,273	$ 1,230	$ 1,061
Adjustment to reflect earnings from equity method investments on a cash basis	**1**	7	1		2	(1)
	1,482	1,246	539	1,273	1,232	1,060
Total fixed charges as below	**766**	698	513	568	609	559
Less:						
Capitalized interest	**36**	30	43	57	55	23
Preferred security distributions of subsidiaries on a pre-tax basis	**16**	21	24	27	23	24
Interest expense and fixed charges related to discontinued operations	**3**	12	15	16	39	38
Total fixed charges included in Income from Continuing Operations Before Income Taxes	**711**	635	431	468	492	474
Total earnings	**$ 2,193**	$ 1,881	$ 970	$ 1,741	$ 1,724	$ 1,534
Fixed charges, as defined:						
Interest charges (a)	**$ 720**	$ 637	$ 446	$ 518	$ 565	$ 506
Estimated interest component of operating rentals	**30**	39	42	22	21	29
Preferred security distributions of subsidiaries on a pre-tax basis	**16**	21	24	27	23	24
Fixed charges of majority-owned share of 50% or less-owned persons		1	1	1		
Total fixed charges (b)	**$ 766**	$ 698	$ 513	$ 568	$ 609	$ 559
Ratio of earnings to fixed charges	**2.9**	2.7	1.9	3.1	2.8	2.7
Ratio of earnings to combined fixed charges and preferred stock dividends (c)	**2.9**	2.7	1.9	3.1	2.8	2.7

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

(c) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

Exhibit 12(b)

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	9 Months Ended Sep. 30 2011	Years Ended December 31, 2010	2009	2008	2007	2006
Earnings, as defined:						
Income (Loss) from Continuing Operations Before Income Taxes	**$ 776**	$ 881	$ (13)	$ 671	$ 785	$ 557
Adjustment to reflect earnings from equity method investments on a cash basis	**1**	7	1		2	(2)
	777	888	(12)	671	787	555
Total fixed charges as below	**213**	426	364	390	388	326
Less:						
Capitalized interest	**34**	33	44	57	54	21
Interest expense and fixed charges related to discontinued operations	**3**	147	102	157	217	205
Total fixed charges included in Income from Continuing Operations Before Income Taxes	**176**	246	218	176	117	100
Total earnings	**$ 953**	$ 1,134	$ 206	$ 847	$ 904	$ 655
Fixed charges, as defined:						
Interest charges (a)	**$ 187**	$ 387	$ 321	$ 374	$ 374	$ 311
Estimated interest component of operating rentals	**26**	38	42	15	14	15
Fixed charges of majority-owned share of 50% or less-owned persons		1	1	1		
Total fixed charges (b)	**$ 213**	$ 426	$ 364	$ 390	$ 388	$ 326
Ratio of earnings to fixed charges	**4.5**	2.7	0.6	2.2	2.3	2.0

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

Exhibit 12(c)

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	9 Months Ended Sep. 30 2011	Years Ended December 31, 2010	2009	2008	2007	2006
Earnings, as defined:						
Income Before Income Taxes	**$ 184**	$ 192	$ 221	$ 278	$ 246	$ 298
Total fixed charges as below	**79**	102	121	114	143	159
Total earnings	**$ 263**	$ 294	$ 342	$ 392	$ 389	$ 457
Fixed charges, as defined:						
Interest charges (a)	**$ 76**	$ 101	$ 120	$ 113	$ 139	$ 152
Estimated interest component of operating rentals	**3**	1	1	1	4	7
Total fixed charges (b)	**$ 79**	$ 102	$ 121	$ 114	$ 143	$ 159
Ratio of earnings to fixed charges	**3.3**	2.9	2.8	3.4	2.7	2.9
Preferred stock dividend requirements on a pre-tax basis	**$ 17**	$ 23	$ 28	$ 28	$ 27	$ 24
Fixed charges, as above	**79**	102	121	114	143	159
Total fixed charges and preferred stock dividends	**$ 96**	$ 125	$ 149	$ 142	$ 170	$ 183
Ratio of earnings to combined fixed charges and preferred stock dividends	**2.7**	2.4	2.3	2.8	2.3	2.5

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
(b) Interest on unrecognized tax benefits is not included in fixed charges.

Exhibit 12(d)

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES

(Millions of Dollars)

	Successor		Predecessor				
	9 Months Ended Sep. 30, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009	2008	2007	2006
Earnings, as defined:							
Income from Continuing Operations Before Income Taxes	**$ 343**	$ 70	$ 300	$ (1,235)	$ (1,536)	$ 332	$ 310
Adjustment to reflect earnings from equity method investments on a cash basis	**(1)**		(4)	11		(5)	(2)
Loss on impairment of goodwill				1,493	1,806		
Mark to market impact of derivative instruments		2	(20)	(19)	34		
	342	72	276	250	304	327	308
Total fixed charges as below	**113**	25	158	186	199	170	161
Total earnings	**$ 455**	$ 97	$ 434	$ 436	$ 503	$ 497	$ 469
Fixed charges, as defined:							
Interest charges (a)	**$ 108**	$ 24	$ 153	$ 176	$ 184	$ 155	$ 143
Estimated interest component of operating rentals	**5**	1	5	5	5	4	4
Estimated discontinued operations interest component of rental expense				5	10	10	10
Preferred stock dividends						1	4
Total fixed charges (b)	**$ 113**	$ 25	$ 158	$ 186	$ 199	$ 170	$ 161
Ratio of earnings to fixed charges	**4.0**	3.9	2.7	2.3	2.5	2.9	2.9

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
(b) Interest on unrecognized tax benefits is not included in fixed charges.

Exhibit 12(e)

LOUISVILLE GAS AND ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES

(Millions of Dollars)

	Successor		Predecessor				
	9 Months Ended Sep. 30, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009	2008	2007	2006
Earnings, as defined:							
Income Before Income Taxes	**$ 160**	$ 29	$ 167	$ 142	$ 131	$ 179	$ 179
Mark to market impact of derivative instruments		1	(20)	(20)	35		
	160	30	147	122	166	179	179
Total fixed charges as below	**36**	8	40	46	60	53	47
Total earnings	**$ 196**	$ 38	$ 187	$ 168	$ 226	$ 232	$ 226
Fixed charges, as defined:							
Interest charges (a)	**$ 34**	$ 8	$ 38	$ 44	$ 58	$ 50	$ 41
Estimated interest component of operating rentals	**2**		2	2	2	2	2
Preferred stock dividends						1	4
Total fixed charges (b)	**$ 36**	$ 8	$ 40	$ 46	$ 60	$ 53	$ 47
Ratio of earnings to fixed charges	**5.4**	4.8	4.7	3.7	3.8	4.4	4.8

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

Exhibit 12(f)

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES

(Millions of Dollars)

	Successor		Predecessor				
	9 Months Ended Sep. 30, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009	2008	2007	2006
Earnings, as defined:							
Income Before Income Taxes	**$ 226**	$ 55	$ 218	$ 200	$ 226	$ 244	$ 226
Adjustment to reflect earnings from equity method investments on a cash basis	**(1)**		(4)	11		(5)	(2)
Mark to market impact of derivative instruments				1	(1)		
	225	55	214	212	225	239	224
Total fixed charges as below	**56**	11	71	79	77	59	41
Total earnings	**$ 281**	$ 66	$ 285	$ 291	$ 302	$ 298	$ 265
Fixed charges, as defined:							
Interest charges (a)	**$ 53**	$ 10	$ 69	$ 76	$ 74	$ 57	$ 39
Estimated interest component of operating rentals	**3**	1	2	3	3	2	2
Total fixed charges (b)	**$ 56**	$ 11	$ 71	$ 79	$ 77	$ 59	$ 41
Ratio of earnings to fixed charges	**5.0**	6.0	4.0	3.7	3.9	5.1	6.5

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

Exhibit 31(a)

CERTIFICATION

I, JAMES H. MILLER, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ James H. Miller
James H. Miller
Chairman and Chief Executive Officer
PPL Corporation

Exhibit 31(b)

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ Paul A. Farr

Paul A. Farr
Executive Vice President and Chief Financial Officer
PPL Corporation

Exhibit 31(c)

CERTIFICATION

I, JAMES H. MILLER, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ James H. Miller
James H. Miller
President
PPL Energy Supply, LLC

Exhibit 31(d)

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ Paul A. Farr

Paul A. Farr
Executive Vice President
PPL Energy Supply, LLC

Exhibit 31(e)

CERTIFICATION

I, DAVID G. DECAMPLI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ David G. DeCampli
David G. DeCampli
President
PPL Electric Utilities Corporation

Exhibit 31(f)

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Chief Accounting Officer
PPL Electric Utilities Corporation

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
LG&E and KU Energy LLC

Exhibit 31(h)

CERTIFICATION

I, S. BRADFORD RIVES, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
LG&E and KU Energy LLC

Exhibit 31(i)

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman, President and Chief Executive Officer
Louisville Gas and Electric Company

Exhibit 31(j)

CERTIFICATION

I, S. BRADFORD RIVES, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ S. Bradford Rives

S. Bradford Rives
Chief Financial Officer
Louisville Gas and Electric Company

Exhibit 31(k)

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
Kentucky Utilities Company

Exhibit 31(l)

CERTIFICATION

I, S. BRADFORD RIVES, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
Kentucky Utilities Company

Exhibit 32(a)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ James H. Miller
James H. Miller
Chairman and Chief Executive Officer
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(b)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President and Chief Financial Officer
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(c)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ James H. Miller
James H. Miller
President
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(d)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(e)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ David G. DeCampli
David G. DeCampli
President
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(f)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Chief Accounting Officer
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(g)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(h)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(i)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(j)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(k)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(l)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

LOUISVILLE GAS & ELECTRIC CO /KY/

FORM 10-Q/A
(Amended Quarterly Report)

Filed 08/08/11 for the Period Ending 06/30/11

Address	220 W MAIN ST P O BOX 32030 LOUISVILLE, KY 40232
Telephone	5026272000
CIK	0000060549
SIC Code	4931 - Electric and Other Services Combined
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
AMENDMENT No. 1

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 30, 2011

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _________ to ___________

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
1-11459	**PPL Corporation** (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-32944	**PPL Energy Supply, LLC** (Exact name of Registrant as specified in its charter) (Delaware) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-3074920
1-905	**PPL Electric Utilities Corporation** (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	**LG&E and KU Energy LLC** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, Kentucky 40202 (502) 627-2000	20-0523163
1-2893	**Louisville Gas and Electric Company** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, Kentucky 40202 (502) 627-2000	61-0264150
1-3464	**Kentucky Utilities Company** (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, Kentucky 40507 (502) 627-2000	61-0247570

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

PPL Corporation	Yes X	No ___
PPL Energy Supply, LLC	Yes X	No ___
PPL Electric Utilities Corporation	Yes X	No ___
LG&E and KU Energy LLC	Yes ___	No X
Louisville Gas and Electric Company	Yes ___	No X
Kentucky Utilities Company	Yes ___	No X

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

PPL Corporation	Yes X	No ___
PPL Energy Supply, LLC	Yes X	No ___
PPL Electric Utilities Corporation	Yes X	No ___
LG&E and KU Energy LLC	Yes X	No ___
Louisville Gas and Electric Company	Yes X	No ___
Kentucky Utilities Company	Yes X	No ___

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
PPL Corporation	[X]	[ ]	[ ]	[ ]
PPL Energy Supply, LLC	[ ]	[ ]	[X]	[ ]
PPL Electric Utilities Corporation	[ ]	[ ]	[X]	[ ]
LG&E and KU Energy LLC	[ ]	[ ]	[X]	[ ]
Louisville Gas and Electric Company	[ ]	[ ]	[X]	[ ]
Kentucky Utilities Company	[ ]	[ ]	[X]	[ ]

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

PPL Corporation	Yes ___	No X
PPL Energy Supply, LLC	Yes ___	No X
PPL Electric Utilities Corporation	Yes ___	No X
LG&E and KU Energy LLC	Yes ___	No X
Louisville Gas and Electric Company	Yes ___	No X
Kentucky Utilities Company	Yes ___	No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PPL Corporation	Common stock, $.01 par value, 577,749,262 shares outstanding at July 29, 2011.
PPL Energy Supply, LLC	PPL Corporation indirectly holds all of the membership interests in PPL Energy Supply, LLC.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at July 29, 2011.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at July 29, 2011.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at July 29, 2011.

This document is available free of charge at the Investor Center on PPL's website at www.pplweb.com. However, information on this website does not constitute a part of this Form 10-Q.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A amends the Quarterly Report on Form 10-Q of PPL Corporation, PPL Energy Supply, LLC and PPL Electric Utilities Corporation for the period ended June 30, 2011, as filed by the Registrants on August 8, 2011 (Original Filing). This Amendment No. 1 is being filed solely to submit the Form 10-Q for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company as the electronic submission of the Original Filing inadvertently excluded LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. This Amendment No. 1 does not reflect events that have occurred subsequent to the filing of the Original Filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

PPL Corporation
(Registrant)

Date: August 8, 2011

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

PPL Energy Supply, LLC
(Registrant)

Date: August 8, 2011

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President
(Principal Financial Officer)

PPL Electric Utilities Corporation
(Registrant)

Date: August 8, 2011

/s/ James E. Abel
James E. Abel
Treasurer
(Principal Financial Officer)

LG&E and KU Energy LLC
(Registrant)

Louisville Gas and Electric Company
(Registrant)

Kentucky Utilities Company
(Registrant)

Date: August 8, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
(Principal Financial Officer)

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PPL CORPORATION
PPL ENERGY SUPPLY, LLC
PPL ELECTRIC UTILITIES CORPORATION
LG&E AND KU ENERGY LLC
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2011

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its current and former subsidiaries

Central Networks - collectively Central Networks East plc, Central Networks Limited and certain other related assets and liabilities. On April 1, 2011, PPL WEM Holdings plc (formerly WPD Investment Holdings Limited) purchased all of the outstanding ordinary share capital of these companies from E.ON AG subsidiaries. Central Networks West plc (subsequently renamed Western Power Distribution (West Midlands) plc), wholly owned by Central Networks Limited (subsequently renamed WPD Midlands Holdings Limited), and Central Networks East plc (subsequently renamed Western Power Distribution (East Midlands) plc) are British regional electricity distribution utility companies.

KU - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky. The subsidiary was acquired by PPL through the acquisition of LKE in November 2010.

LG&E - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky. The subsidiary was acquired by PPL through the acquisition of LKE in November 2010.

LG&E and KU Services Company - LG&E and KU Services Company (formerly E.ON U.S. Services Inc.), a subsidiary of LKE that provides services for LKE and its subsidiaries.

LKE - LG&E and KU Energy LLC (formerly E.ON U.S. LLC), a subsidiary of PPL and the parent of LG&E, KU, and other subsidiaries. PPL acquired E.ON U.S. LLC in November 2010 and changed the name to LG&E and KU Energy LLC. Within the context of this document, references to LKE also relate to the consolidated entity.

PPL - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding, LKE and other subsidiaries.

PPL Capital Funding - PPL Capital Funding, Inc., a wholly owned financing subsidiary of PPL.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL that transmits and distributes electricity in its Pennsylvania service territory and provides electric supply to retail customers in this territory as a PLR.

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Energy Supply, PPL Global (effective January 2011) and other subsidiaries.

PPL EnergyPlus - PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that markets and trades wholesale and retail electricity and gas, and supplies energy and energy services in competitive markets.

PPL Energy Supply - PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the parent company of PPL Generation, PPL EnergyPlus and other subsidiaries. In January 2011, PPL Energy Supply distributed its membership interest in PPL Global, representing 100% of the outstanding membership interests of PPL Global, to PPL Energy Supply's parent, PPL Energy Funding.

PPL Gas Utilities - PPL Gas Utilities Corporation, which was a regulated utility subsidiary of PPL until its sale in October 2008, provided natural gas distribution, transmission and storage services, and the competitive sale of propane.

PPL Generation - PPL Generation, LLC, a subsidiary of PPL Energy Supply that owns and operates U.S. generating facilities through various subsidiaries.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that primarily owns and operates a business in the U.K., WPD, that is focused on the regulated distribution of electricity. In January 2011, PPL Energy Supply, PPL Global's former parent, distributed its membership interest in PPL Global, representing 100% of the outstanding membership interest of PPL Global, to its parent, PPL Energy Funding.

PPL Martins Creek - PPL Martins Creek, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Montana - PPL Montana, LLC, an indirect subsidiary of PPL Generation that generates electricity for wholesale sales in Montana and the Pacific Northwest.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides services for PPL and its subsidiaries.

PPL Susquehanna - PPL Susquehanna, LLC, the nuclear generating subsidiary of PPL Generation.

PPL WEM - PPL WEM Holdings plc (formerly WPD Investment Holdings Limited), an indirect, wholly owned U.K. subsidiary of PPL Global. PPL WEM directly wholly owns WPD (East Midlands) and indirectly wholly owns WPD (West Midlands).

PPL WW - PPL WW Holdings Limited (formerly Western Power Distribution Holdings Limited), an indirect, wholly owned U.K. subsidiary of PPL Global. PPL WW Holdings indirectly wholly owns WPD (South Wales) and WPD (South West).

WPD - refers to PPL WW and PPL WEM and their subsidiaries.

WPD Midlands - refers to Central Networks, which was renamed after the acquisition.

WPD (East Midlands) - Western Power Distribution (East Midlands) plc, a British regional electricity distribution utility company. The company, formerly Central Networks East plc, was acquired and renamed in April 2011.

WPD (South Wales) - Western Power Distribution (South Wales) plc, a British regional electricity distribution utility company.

WPD (South West) - Western Power Distribution (South West) plc, a British regional electricity distribution utility company.

WPD (West Midlands) - Western Power Distribution (West Midlands) plc, a British regional electricity distribution utility company. The company, formerly Central Networks West plc, was acquired and renamed in April 2011.

WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-utility generating stations in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pounds sterling.

2001 Mortgage Indenture - PPL Electric's Indenture, dated as of August 1, 2001, to The Bank of New York Mellon (as successor to JPMorgan Chase Bank), as trustee, as supplemented.

2010 Bridge Facility - an up to $6.5 billion Senior Bridge Term Loan Credit Agreement between PPL Capital Funding, as borrower, and PPL, as guarantor, and a group of banks syndicated in June 2010, to serve as a funding backstop in the event alternative financing was not available prior to the closing of PPL's acquisition of E.ON U.S.

2010 Equity Unit(s) - a PPL equity unit, issued in June 2010, consisting of a 2010 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in $1,000 principal amount of PPL Capital Funding 4.625% Junior Subordinated Notes due 2018.

2010 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2010.

2010 Purchase Contract(s) - a contract that is a component of a 2010 Equity Unit that requires holders to purchase shares of PPL common stock on or prior to July 1, 2013.

2011 Bridge Facility - the £3.6 billion Senior Bridge Term Loan Credit Agreement between PPL Capital Funding and PPL WEM, as borrowers, and PPL, as guarantor, and lenders party thereto, used to fund the April 1, 2011 acquisition of Central Networks, as amended by Amendment No. 1 thereto dated April 15, 2011.

2011 Equity Unit(s) - a PPL equity unit, issued in April 2011, consisting of a 2011 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in $1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019.

2011 Purchase Contract(s) - a contract that is a component of a 2011 Equity Unit that requires holders to purchase shares of PPL common stock on or prior to May 1, 2014.

2011 Registration Statements - refers to the registration statements on Form S-4 filed with the SEC by each of LKE (Registration No. 333-173665) on April 21, 2011, LG&E (Registration No 333-173676) on April 22, 2011 and KU (Registration No. 333-173675) on April 22, 2011, each as amended by Amendment No. 1 filed with the SEC on May 26, 2011 and effective June 1, 2011.

Acid Rain Program - allowance trading system established by the Clean Air Act to reduce levels of sulfur dioxide. Under this program, affected power plants are allocated allowances based on their fuel consumption during specified baseline years and a specific emissions rate.

Act 129 - became effective in October 2008. The law amends the Pennsylvania Public Utility Code and creates an energy efficiency and conservation program and smart metering technology requirements, adopts new PLR electricity supply procurement rules, provides remedies for market misconduct and makes changes to the existing Alternative Energy Portfolio Standard.

AFUDC - Allowance for Funds Used During Construction, the cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction cost.

A.M. Best - A.M. Best Company, a company that reports on the financial condition of insurance companies.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

Baseload generation - includes the output provided by PPL's nuclear, coal, hydroelectric and qualifying facilities.

Basis - when used in the context of derivatives and commodity trading, the commodity price differential between two locations, products or time periods.

Bcf - billion cubic feet.

CAIR - the EPA's Clean Air Interstate Rule.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

COLA - license application for a combined construction permit and operating license from the NRC for a nuclear plant.

CSAPR - Cross State Air Pollution Rule, the CSAPR implements Clean Air Act requirements concerning the transport of air pollution from power plants across state boundaries. The CSAPR replaces the 2005 Clean Air Interstate Rule (CAIR), which the U.S. Court of Appeals for the D.C. Circuit ordered the EPA to revise in 2008. The court allowed CAIR to remain in place temporarily while the EPA worked to finalize the replacement rule.

Customer Choice Act - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

Depreciation not normalized - the flow-through income tax impact related to the state regulatory treatment of depreciation-related timing differences.

Dodd-Frank Act - the Dodd-Frank Wall Street Reform and Consumer Protection Act that was signed into law in July 2010.

DOE - Department of Energy, a U.S. government agency.

DRIP - Dividend Reinvestment and Direct Stock Purchase Plan.

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the Kentucky Public Service Commission may determine the reasonableness of demand-side management plans proposed by any utility under its jurisdiction. Proposed demand-side management mechanisms may seek full recovery of demand-side management programs and revenues lost by implementing those programs and/or incentives designed to provide financial rewards to the utility for implementing cost-effective demand-side management programs. The cost of such programs shall be assigned only to the class or classes of customers which benefit from the programs.

E.ON AG - a German corporation and the parent of E.ON UK plc, the former parent of Central Networks.

Economic Stimulus Package - The American Recovery and Reinvestment Act of 2009, generally referred to as the federal economic stimulus package, which was signed into law in February 2009.

ECR - Environmental Cost Recovery. Pursuant to Kentucky Revised Statute 278.183, effective January 1993, Kentucky electric utilities are entitled to the current recovery of costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements which apply to coal combustion and by-products from the production of energy from coal.

EMF - electric and magnetic fields.

EPA - Environmental Protection Agency, a U.S. government agency.

EPS - earnings per share.

Equity Units - refers collectively to the 2011 and 2010 Equity Units.

ESOP - Employee Stock Ownership Plan.

Euro - the basic monetary unit among participating members of the European Union.

E. W. Brown - a generating station in Kentucky with capacity of 1,631 MW. LG&E and KU are participants in a sale-leaseback transaction involving two combustion turbines at the station.

FERC - Federal Energy Regulatory Commission, the federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

Fitch - Fitch, Inc., a credit rating agency.

FTR - financial transmission rights, which are financial instruments established to manage price risk related to electricity transmission congestion. They entitle the holder to receive compensation or require the holder to remit payment for certain congestion-related transmission charges based on the level of congestion in the transmission grid.

Fundamental Change - as it relates to the terms of the 2011 and 2010 Equity Units, will be deemed to have occurred if any of the following occurs with respect to PPL, subject to certain exceptions: (i) a change of control; (ii) a consolidation with or merger into any other entity; (iii) common stock ceases to be listed or quoted; or (iv) a liquidation, dissolution or termination.

GAAP - generally accepted accounting principles in the U.S.

GBP - British pound sterling.

GHG - greenhouse gas(es).

GWh - gigawatt-hour, one million kilowatt-hours.

Health Care Reform - The Patient Protection and Affordable Care Act (HR 3590) and the Health Care and Education Reconciliation Act of 2010 (HR 4872), signed into law in March 2010.

Intermediate and peaking generation - includes the output provided by PPL's oil- and natural gas-fired units.

IRS - Internal Revenue Service, a U.S. government agency.

ISO - Independent System Operator.

KPSC - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

LIBOR - London Interbank Offered Rate.

Long Island generation business - includes a 79.9 MW gas-fired plant in the Edgewood section of Brentwood, New York and a 79.9 MW oil-fired plant in Shoreham, New York and related tolling agreements. This business was sold in February 2010.

MACT - maximum achievable control technology.

MISO - Midwest Independent System Operator, an independent system operator and the regional transmission organization that provides open-access transmission service and monitors the high-voltage transmission system in all or parts of Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Montana, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin and Manitoba, Canada.

Montana Power - The Montana Power Company, a Montana-based company that sold its generating assets to PPL Montana in December 1999. Through a series of transactions consummated during the first quarter of 2002, Montana Power sold its electricity delivery business to NorthWestern.

Moody's - Moody's Investors Service, Inc., a credit rating agency.

MW - megawatt, one thousand kilowatts.

NDT - PPL Susquehanna's nuclear plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

NorthWestern - NorthWestern Corporation, a Delaware corporation, and successor in interest to Montana Power's electricity delivery business, including Montana Power's rights and obligations under contracts with PPL Montana.

NPDES - National Pollutant Discharge Elimination System.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules.

NRC - Nuclear Regulatory Commission, the federal agency that regulates nuclear power facilities.

OCI - other comprehensive income or loss.

Ofgem - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and related matters.

Opacity - The degree to which emissions reduce the transmission of light and obscure the view of an object in the background. There are emission regulations that limit the opacity in power plant stack gas emissions.

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek Station in Ohio and the Clifty Creek Station in Indiana, with combined nameplate capacities of 2,390 MW.

PADEP - the Pennsylvania Department of Environmental Protection, a state government agency.

PJM - PJM Interconnection, L.L.C., operator of the electric transmission network and electric energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PLR - Provider of Last Resort, the role of PPL Electric in providing default electricity supply to retail customers within its delivery territory who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

PUC - Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

Purchase Contracts - refers collectively to the 2010 and 2011 Purchase Contracts.

PURTA - The Pennsylvania Public Utility Realty Tax Act.

RAV - regulatory asset value. This term is also commonly known as RAB or regulatory asset base.

RECs - renewable energy credits.

Regional Transmission Expansion Plan - PJM conducts a long-range Regional Transmission Expansion Planning process that identifies what changes and additions to the grid are needed to ensure future needs are met for both the reliability and the economic performance of the grid. Under PJM agreements, transmission owners are obligated to build transmission projects that are needed to maintain reliability standards and that are reviewed and approved by the PJM Board.

Regulation S-X - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

RMC - Risk Management Committee.

S&P - Standard & Poor's Ratings Services, a credit rating agency.

Sarbanes-Oxley - Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting. It also requires an independent auditor to make its own assessment.

SCR - selective catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases.

Scrubber - an air pollution control device that can remove particulates and/or gases (such as sulfur dioxide) from exhaust gases.

SEC - the U.S. Securities and Exchange Commission, a U.S. government agency whose primary mission is to protect investors and maintain the integrity of the securities markets.

Securities Act of 1933 - the Securities Act of 1933, 15 U.S. Code, Sections 77a-77aa, as amended.

SIFMA Index - the Securities Industry and Financial Markets Association Municipal Swap Index.

Smart meter - an electric meter that utilizes smart metering technology.

Smart metering technology - technology that can measure, among other things, time of electricity consumption to permit offering rate incentives for usage during lower cost or demand intervals. The use of this technology also strengthens network reliability.

SNCR - selective non-catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases.

Superfund - federal environmental legislation that addresses remediation of contaminated sites; states also have similar statutes.

TC2 - Trimble County Unit 2, a coal-fired plant located in Kentucky with a capacity of 760 MW. LKE indirectly owns a 75% interest (consists of LG&E's 14.25% and KU's 60.75% interests) in TC2, or 570 MW of the capacity.

Tolling agreement - agreement whereby the owner of an electric generating facility agrees to use that facility to convert fuel provided by a third-party into electricity for delivery back to the third-party.

TRA - Tennessee Regulatory Authority, the state agency that has jurisdiction over the regulation of rates and service of utilities in Tennessee.

VaR - value-at-risk, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level.

VIE - variable interest entity.

Volumetric risk - the risk that the actual load volumes provided under full-requirement sales contracts could vary significantly from forecasted volumes.

VSCC - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

VWAP - as it relates to the 2011 and 2010 Equity Units issued by PPL, the per share volume-weighted-average price as displayed under the heading Bloomberg VWAP on Bloomberg page "PPL <EQUITY> AQR" (or its equivalent successor if such page is not available) in respect of the period from the scheduled open of trading on the relevant trading day until the scheduled close of trading on the relevant trading day (or if such volume-weighted-average price is unavailable, the market price of one share of PPL common stock on such trading day determined, using a volume-weighted-average method, by a nationally recognized independent investment banking firm retained for this purpose by PPL).

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FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in "Item 1A. Risk Factors" in this Form 10-Q and each Registrant's 2010 Form 10-K (in the case of PPL, PPL Energy Supply and PPL Electric) or 2011 Registration Statements (in the case of LKE, LG&E and KU), and in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q report, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- fuel supply cost and availability;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- weather conditions affecting generation, customer energy use and operating costs;
- operation, availability and operating costs of existing generation facilities;
- the length of scheduled and unscheduled outages at our generating facilities;
- transmission and distribution system conditions and operating costs;
- potential expansion of alternative sources of electricity generation;
- potential laws or regulations to reduce emissions of "greenhouse" gases or the physical effects of climate change;
- collective labor bargaining negotiations;
- the outcome of litigation against PPL and its subsidiaries;
- potential effects of threatened or actual terrorism, war or other hostilities, or natural disasters;
- the commitments and liabilities of PPL and its subsidiaries;
- market demand and prices for energy, capacity, transmission services, emission allowances, RECs and delivered fuel;
- competition in retail and wholesale power and natural gas markets;
- liquidity of wholesale power markets;
- defaults by counterparties under energy, fuel or other power product contracts;
- market prices of commodity inputs for ongoing capital expenditures;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- stock price performance of PPL;
- volatility in the fair value of debt and equity securities and its impact on the value of assets in the NDT funds and in defined benefit plans, and the potential cash funding requirements if fair value declines ;
- interest rates and their effect on pension, retiree medical, and nuclear decommissioning liabilities, and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial or commodity markets and economic conditions;
- the profitability and liquidity, including access to capital markets and credit facilities, of PPL and its subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- foreign currency exchange rates;
- current and future environmental conditions, regulations and other requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
- legal, regulatory, political, market or other reactions to the 2011 incident at the nuclear generating facility at Fukushima, Japan, including additional NRC requirements;
- political, regulatory or economic conditions in states, regions or countries where PPL or its subsidiaries conduct business;
- receipt of necessary governmental permits, approvals and rate relief;
- new state, federal or foreign legislation, including new tax, environmental, healthcare or pension-related legislation;
- state, federal and foreign regulatory developments;
- the outcome of any rate cases by PPL Electric at the PUC or the FERC; by LG&E at the KPSC or the FERC; by KU at the KPSC, VSCC, TRA or the FERC; or by WPD at Ofgem in the U.K.;
- the impact of any state, federal or foreign investigations applicable to PPL and its subsidiaries and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures; and

- business dispositions or acquisitions and our ability to successfully operate such acquired businesses and realize expected benefits from business acquisitions, including PPL's 2011 acquisition of WPD Midlands and 2010 acquisition of LKE.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU on file with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for PPL, PPL Energy Supply, PPL Electric, LKE, LG&E or KU to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU undertake no obligation to update the information contained in such statement to reflect subsequent developments or information.

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PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Operating Revenues				
Utility	**$ 1,484**	$ 692	**$ 3,020**	$ 1,706
Unregulated retail electric and gas	**181**	101	**328**	205
Wholesale energy marketing				
Realized	**732**	1,231	**1,770**	2,590
Unrealized economic activity (Note 14)	**(44)**	(666)	**13**	(242)
Net energy trading margins	**10**	5	**21**	16
Energy-related businesses	**126**	110	**247**	204
Total Operating Revenues	**2,489**	1,473	**5,399**	4,479
Operating Expenses				
Operation				
Fuel	**414**	258	**889**	488
Energy purchases				
Realized	**434**	737	**1,105**	1,746
Unrealized economic activity (Note 14)	**(109)**	(445)	**(127)**	118
Other operation and maintenance	**723**	419	**1,306**	863
Depreciation	**237**	125	**445**	249
Taxes, other than income	**75**	53	**148**	125
Energy-related businesses	**120**	100	**233**	188
Total Operating Expenses	**1,894**	1,247	**3,999**	3,777
Operating Income	**595**	226	**1,400**	702
Other Income (Expense) - net	**(34)**		**(39)**	8
Other-Than-Temporary Impairments		3	**1**	3
Interest Expense	**264**	131	**438**	242
Income from Continuing Operations Before Income Taxes	**297**	92	**922**	465
Income Taxes	**96**	7	**319**	133
Income from Continuing Operations After Income Taxes	**201**	85	**603**	332
Income (Loss) from Discontinued Operations (net of income taxes)	**(1)**	7	**2**	15
Net Income	**200**	92	**605**	347
Net Income Attributable to Noncontrolling Interests	**4**	7	**8**	12
Net Income Attributable to PPL Corporation	**$ 196**	$ 85	**$ 597**	$ 335
Amounts Attributable to PPL Corporation:				
Income from Continuing Operations After Income Taxes	**$ 197**	$ 78	**$ 595**	$ 320
Income (Loss) from Discontinued Operations (net of income taxes)	**(1)**	7	**2**	15
Net Income	**$ 196**	$ 85	**$ 597**	$ 335
Earnings Per Share of Common Stock:				
Income from Continuing Operations After Income Taxes Available to PPL Corporation Common Shareowners:				
Basic	**$ 0.35**	$ 0.20	**$ 1.13**	$ 0.84

Diluted	**$**	**0.35**	$	0.20	**$**	**1.13**	$	0.84
Net Income Available to PPL Corporation Common Shareowners:								
Basic	**$**	**0.35**	$	0.22	**$**	**1.14**	$	0.88
Diluted	**$**	**0.35**	$	0.22	**$**	**1.14**	$	0.88
Dividends Declared Per Share of Common Stock	**$**	**0.350**	$	0.350	**$**	**0.700**	$	0.700
Weighted-Average Shares of Common Stock Outstanding (in thousands)								
Basic		**561,652**		381,896		**522,897**		379,810
Diluted		**562,019**		382,075		**523,184**		380,034

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30, 2011	2010
Cash Flows from Operating Activities		
Net income	$ **605**	$ 347
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**446**	258
Amortization	**126**	87
Defined benefit plans - expense	**71**	51
Deferred income taxes and investment tax credits	**337**	(63)
Unrealized (gains) losses on derivatives, and other hedging activities	**(165)**	344
Provision for Montana hydroelectric litigation	**7**	59
Other	**60**	51
Change in current assets and current liabilities		
Accounts receivable	**(36)**	(45)
Accounts payable	**(60)**	79
Unbilled revenue	**194**	(114)
Prepayments	**111**	(156)
Counterparty collateral	**(258)**	98
Taxes	**(63)**	(15)
Other	**27**	(93)
Other operating activities		
Defined benefit plans - funding	**(550)**	(345)
Other assets	**(42)**	9
Other liabilities	**4**	20
Net cash provided by operating activities	**814**	572
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(1,003)**	(624)
Proceeds from the sale of certain non-core generation facilities	**381**	
Proceeds from the sale of the Long Island generation business		124
Acquisition of WPD Midlands	**(5,763)**	
Purchases of nuclear plant decommissioning trust investments	**(107)**	(75)
Proceeds from the sale of nuclear plant decommissioning trust investments	**100**	68
Proceeds from the sale of other investments	**163**	
Net (increase) decrease in restricted cash and cash equivalents	**(22)**	80
Other investing activities	**(48)**	(31)
Net cash provided by (used in) investing activities	**(6,299)**	(458)
Cash Flows from Financing Activities		
Issuance of long-term debt	**4,350**	1,747
Issuance of common stock	**2,266**	2,410
Payment of common stock dividends	**(340)**	(263)
Redemption of preferred stock of a subsidiary		(54)
Debt issuance and credit facility costs	**(72)**	(76)
Net increase (decrease) in short-term debt	**(321)**	(158)
Other financing activities	**(36)**	(11)
Net cash provided by (used in) financing activities	**5,847**	3,595
Effect of Exchange Rates on Cash and Cash Equivalents	**(18)**	(5)
Net Increase (Decrease) in Cash and Cash Equivalents	**344**	3,704
Cash and Cash Equivalents at Beginning of Period	**925**	801
Cash and Cash Equivalents at End of Period	$ **1,269**	$ 4,505

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ **1,269**	$ 925
Short-term investments		163
Restricted cash and cash equivalents	**43**	28
Accounts receivable (less reserve: 2011, $39; 2010, $55)		
Customer	**712**	652
Other	**72**	90
Unbilled revenues	**708**	789
Fuel, materials and supplies	**647**	643
Prepayments	**344**	435
Price risk management assets	**1,467**	1,918
Other intangibles	**42**	70
Assets held for sale		374
Regulatory assets	**25**	85
Other current assets	**35**	16
Total Current Assets	**5,364**	6,188
Investments		
Nuclear plant decommissioning trust funds	**648**	618
Other investments	**78**	75
Total Investments	**726**	693
Property, Plant and Equipment		
Regulated utility plant	**22,572**	15,994
Less: accumulated depreciation - regulated utility plant	**3,290**	3,037
Regulated utility plant, net	**19,282**	12,957
Non-regulated property, plant and equipment		
Generation	**10,366**	10,165
Nuclear fuel	**575**	578
Other	**505**	403
Less: accumulated depreciation - non-regulated property, plant and equipment	**5,535**	5,440
Non-regulated property, plant and equipment, net	**5,911**	5,706
Construction work in progress	**1,415**	2,160
Property, Plant and Equipment, net (a)	**26,608**	20,823
Other Noncurrent Assets		
Regulatory assets	**1,200**	1,180
Goodwill (Note 15)	**4,190**	1,761
Other intangibles (a)	**1,078**	966
Price risk management assets	**665**	655
Other noncurrent assets	**706**	571
Total Other Noncurrent Assets	**7,839**	5,133
Total Assets	$ **40,537**	$ 32,837

(a) At June 30, 2011 and December 31, 2010, includes $418 million and $424 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and $11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Short-term debt	**$ 431**	$ 694
Long-term debt	**502**	502
Accounts payable	**1,246**	1,028
Taxes	**110**	134
Interest	**175**	166
Dividends	**207**	174
Price risk management liabilities	**817**	1,144
Counterparty collateral	**80**	338
Regulatory liabilities	**77**	109
Other current liabilities	**948**	925
Total Current Liabilities	**4,593**	5,214
Long-term Debt	**17,532**	12,161
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**3,434**	2,563
Investment tax credits	**262**	237
Price risk management liabilities	**443**	470
Accrued pension obligations	**1,015**	1,496
Asset retirement obligations	**491**	435
Regulatory liabilities	**1,023**	1,031
Other deferred credits and noncurrent liabilities	**825**	752
Total Deferred Credits and Other Noncurrent Liabilities	**7,493**	6,984
Commitments and Contingent Liabilities (Notes 6 and 10)		
Equity		
PPL Corporation Shareowners' Common Equity		
Common stock - $0.01 par value (a)	**6**	5
Additional paid-in capital	**6,774**	4,602
Earnings reinvested	**4,306**	4,082
Accumulated other comprehensive loss	**(435)**	(479)
Total PPL Corporation Shareowners' Common Equity	**10,651**	8,210
Noncontrolling Interests	**268**	268
Total Equity	**10,919**	8,478
Total Liabilities and Equity	**$ 40,537**	$ 32,837

(a) 780,000 shares authorized; 577,265 and 483,391 shares issued and outstanding at June 30, 2011 and December 31, 2010.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	PPL Corporation Shareowners											
	Common stock shares outstanding (a)	Common stock		Additional paid-in capital		Earnings reinvested		Accumulated other comprehensive loss		Non-controlling interests		Total
March 31, 2011	484,618	$ 5	$	4,637	$	4,312	$	(424)	$	268	$	8,798
Common stock issued (b)	92,647	1		2,273								2,274
Purchase Contracts (c)				(141)								(141)
Stock-based compensation				5								5
Net income						196				4		200
Dividends, dividend equivalents and distributions (d)						(202)				(4)		(206)
Other comprehensive income (loss)								(11)				(11)
June 30, 2011	577,265	$ 6	$	6,774	$	4,306	$	(435)	$	268	$	10,919
December 31, 2010	483,391	$ 5	$	4,602	$	4,082	$	(479)	$	268	$	8,478
Common stock issued (b)	93,874	1		2,312								2,313
Purchase Contracts (c)				(141)								(141)
Stock-based compensation				1								1
Net income						597				8		605
Dividends, dividend equivalents and distributions (d)						(373)				(8)		(381)
Other comprehensive income (loss)								44				44
June 30, 2011	577,265	$ 6	$	6,774	$	4,306	$	(435)	$	268	$	10,919
March 31, 2010	378,131	$ 4	$	2,310	$	3,866	$	(288)	$	319	$	6,211
Common stock issued (b)	104,057	1		2,425								2,426
Purchase Contracts (c)				(186)								(186)
Stock-based compensation				4								4
Net income						85				7		92
Dividends, dividend equivalents, redemptions and distributions (d)						(133)				(58)		(191)
Other comprehensive income (loss)								(151)				(151)
June 30, 2010	482,188	$ 5	$	4,553	$	3,818	$	(439)	$	268	$	8,205
December 31, 2009	377,183	$ 4	$	2,280	$	3,749	$	(537)	$	319	$	5,815
Common stock issued (b)	105,005	1		2,458								2,459
Purchase Contracts (c)				(186)								(186)
Stock-based compensation				1								1
Net income						335				12		347
Dividends, dividend equivalents, redemptions and distributions (d)						(266)				(63)		(329)
Other comprehensive income (loss)								98				98
June 30, 2010	482,188	$ 5	$	4,553	$	3,818	$	(439)	$	268	$	8,205

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented to any shareowners' meeting.
(b) The 2011 periods include the April issuance of 92 million shares of common stock. See Note 7 for additional information. The 2010 periods include the June issuance of 103.5 million shares of common stock. The 2011 and 2010 periods include shares of common stock issued through various stock and incentive compensation plans.
(c) The 2011 periods include $123 million for the 2011 Purchase Contracts and $18 million of related fees and expenses, net of tax. See Note 7 for additional information. The 2010 periods include $157 million for the 2010 Purchase Contracts and $29 million of related fees and expenses.
(d) "Earnings reinvested" includes dividends and dividend equivalents on PPL Corporation common stock and restricted stock units. "Noncontrolling interests" includes dividends, redemptions and distributions to noncontrolling interests, for which the 2010 periods include $54 million paid to redeem PPL Electric's preferred stock.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net income	**$ 200**	$ 92	**$ 605**	$ 347
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of $0, $0, $1, ($1)	**93**	(67)	**160**	(160)
Available-for-sale securities, net of tax of ($1), $21, ($13), $10	**1**	(17)	**13**	(7)
Qualifying derivatives, net of tax of $21, $114, ($11), ($148)	**(30)**	(151)	**7**	226
Equity investees' other comprehensive income (loss)			**(1)**	
Defined benefit plans:				
Net actuarial gain, net of tax of $0, ($31), $0, ($31)		80		80
Reclassifications to net income - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of $0, $0, $5, $2	**(1)**	(2)	**(8)**	(4)
Qualifying derivatives, net of tax of $55, $1, $106, $38	**(89)**	(7)	**(158)**	(67)
Equity investees' other comprehensive (income) loss	**1**		**3**	
Defined benefit plans:				
Prior service costs, net of tax of ($1), ($1), ($3), ($4)	**2**	5	**5**	7
Net actuarial loss, net of tax of ($6), ($6), ($10), ($6)	**12**	7	**23**	21
Transition obligation, net of tax of $0, ($1), $0, ($1)		1		2
Total other comprehensive income (loss)	**(11)**	(151)	**44**	98
Comprehensive income (loss)	**189**	(59)	**649**	445
Comprehensive income attributable to noncontrolling interests	**4**	7	**8**	12
Comprehensive income (loss) attributable to PPL Corporation	**$ 185**	$ (66)	**$ 641**	$ 433

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Operating Revenues				
Wholesale energy marketing				
Realized	**$ 732**	$ 1,231	**$ 1,770**	$ 2,590
Unrealized economic activity (Note 14)	**(44)**	(666)	**13**	(242)
Wholesale energy marketing to affiliate	**4**	64	**10**	179
Unregulated retail electric and gas	**181**	101	**328**	205
Net energy trading margins	**10**	5	**21**	16
Energy-related businesses	**114**	100	**224**	181
Total Operating Revenues	**997**	835	**2,366**	2,929
Operating Expenses				
Operation				
Fuel	**208**	258	**468**	488
Energy purchases				
Realized	**226**	530	**540**	1,130
Unrealized economic activity (Note 14)	**(109)**	(445)	**(127)**	118
Energy purchases from affiliate	**1**		**2**	1
Other operation and maintenance	**288**	254	**533**	552
Depreciation	**60**	60	**119**	117
Taxes, other than income	**16**	11	**32**	22
Energy-related businesses	**112**	93	**220**	174
Total Operating Expenses	**802**	761	**1,787**	2,602
Operating Income	**195**	74	**579**	327
Other Income (Expense) - net	**4**	5	**18**	11
Other-Than-Temporary Impairments		3	**1**	3
Interest Income from Affiliates	**1**	2	**4**	2
Interest Expense	**51**	49	**98**	102
Income from Continuing Operations Before Income Taxes	**149**	29	**502**	235
Income Taxes	**59**	3	**201**	85
Income from Continuing Operations After Income Taxes	**90**	26	**301**	150
Income (Loss) from Discontinued Operations (net of income taxes)	**(1)**	60	**2**	136
Net Income	**$ 89**	$ 86	**$ 303**	$ 286

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30, 2011	2010
Cash Flows from Operating Activities		
Net income	**$ 303**	$ 286
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**120**	183
Amortization	**50**	69
Defined benefit plans - expense	**17**	29
Deferred income taxes and investment tax credits	**186**	(95)
Unrealized (gains) losses on derivatives, and other hedging activities	**(163)**	347
Provision for Montana hydroelectric litigation	**7**	59
Other	**22**	45
Change in current assets and current liabilities		
Accounts receivable	**57**	94
Accounts payable	**(104)**	(38)
Unbilled revenue	**126**	(190)
Taxes	**31**	37
Counterparty collateral	**(258)**	98
Other	**(69)**	(66)
Other operating activities		
Defined benefit plans - funding	**(137)**	(275)
Other assets	**(25)**	(25)
Other liabilities	**25**	44
Net cash provided by operating activities	**188**	602
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(324)**	(464)
Proceeds from the sale of certain non-core generation facilities	**381**	
Proceeds from the sale of the Long Island generation business		124
Purchases of nuclear plant decommissioning trust investments	**(107)**	(75)
Proceeds from the sale of nuclear plant decommissioning trust investments	**100**	68
Net (increase) decrease in notes receivable from affiliates	**(37)**	
Net (increase) decrease in restricted cash and cash equivalents	**(14)**	77
Other investing activities	**(35)**	(30)
Net cash provided by (used in) investing activities	**(36)**	(300)
Cash Flows from Financing Activities		
Issuance of long-term debt		597
Contributions from member	**168**	3,525
Distributions to member	**(134)**	(364)
Cash included in net assets of subsidiary distributed to member	**(325)**	
Net increase (decrease) in short-term debt	**(100)**	(158)
Other financing activities		(8)
Net cash provided by (used in) financing activities	**(391)**	3,592
Effect of Exchange Rates on Cash and Cash Equivalents		(5)
Net Increase (Decrease) in Cash and Cash Equivalents	**(239)**	3,889
Cash and Cash Equivalents at Beginning of Period	**661**	245
Cash and Cash Equivalents at End of Period	**$ 422**	$ 4,134

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	June 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ **422**	$ 661
Restricted cash and cash equivalents	**31**	19
Accounts receivable (less reserve: 2011, $1; 2010, $20)		
Customer	**173**	225
Other	**25**	24
Unbilled revenues	**290**	486
Accounts receivable from affiliates	**72**	124
Note receivable from affiliate	**37**	
Fuel, materials and supplies	**316**	297
Prepayments	**83**	89
Price risk management assets	**1,457**	1,907
Other intangibles	**12**	11
Assets held for sale		374
Other current assets	**2**	11
Total Current Assets	**2,920**	4,228
Investments		
Nuclear plant decommissioning trust funds	**648**	618
Other investments	**40**	37
Total Investments	**688**	655
Property, Plant and Equipment (Note 8)		
Regulated utility plant		4,269
Less: accumulated depreciation - regulated utility plant		888
Regulated utility plant, net		3,381
Non-regulated property, plant and equipment		
Generation	**10,370**	10,169
Nuclear fuel	**575**	578
Other	**242**	314
Less: accumulated depreciation - non-regulated property, plant and equipment	**5,438**	5,401
Non-regulated property, plant and equipment, net	**5,749**	5,660
Construction work in progress	**569**	594
Property, Plant and Equipment, net (a)	**6,318**	9,635
Other Noncurrent Assets		
Goodwill (Note 8)	**86**	765
Other intangibles (a) (Note 8)	**382**	464
Price risk management assets	**655**	651
Other noncurrent assets	**383**	398
Total Other Noncurrent Assets	**1,506**	2,278
Total Assets	$ **11,432**	$ 16,796

(a) At June 30, 2011 and December 31, 2010, includes $418 million and $424 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and $11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	June 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Short-term debt	**$ 250**	$ 531
Long-term debt	**500**	500
Accounts payable	**451**	592
Accounts payable to affiliates	**13**	43
Taxes	**97**	119
Interest	**38**	110
Price risk management liabilities	**792**	1,112
Counterparty collateral	**80**	338
Other current liabilities	**458**	624
Total Current Liabilities	**2,679**	3,969
Long-term Debt (Note 8)	**2,775**	5,089
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**1,303**	1,548
Investment tax credits	**110**	81
Price risk management liabilities	**409**	438
Accrued pension obligations (Note 8)	**173**	619
Asset retirement obligations	**336**	332
Other deferred credits and noncurrent liabilities	**195**	211
Total Deferred Credits and Other Noncurrent Liabilities	**2,526**	3,229
Commitments and Contingent Liabilities (Note 10)		
Equity		
Member's equity	**3,434**	4,491
Noncontrolling interests	**18**	18
Total Equity	**3,452**	4,509
Total Liabilities and Equity	**$ 11,432**	$ 16,796

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
PPL Energy Supply, LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Member's equity	Non-controlling interests	Total
March 31, 2011	$ 3,316	$ 18	$ 3,334
Net income	89		89
Other comprehensive income (loss)	(86)		(86)
Contributions from member	168		168
Distributions	(53)		(53)
June 30, 2011	$ 3,434	$ 18	$ 3,452
December 31, 2010	$ 4,491	$ 18	$ 4,509
Net income	303		303
Other comprehensive income (loss)	(106)		(106)
Contributions from member	168		168
Distributions	(134)		(134)
Distribution of membership interest in PPL Global (a)	(1,288)		(1,288)
June 30, 2011	$ 3,434	$ 18	$ 3,452
March 31, 2010	$ 4,857	$ 18	$ 4,875
Net income	86		86
Other comprehensive income (loss)	(98)		(98)
Contributions from member	3,525		3,525
Distributions	(202)		(202)
June 30, 2010	$ 8,168	$ 18	$ 8,186
December 31, 2009	$ 4,568	$ 18	$ 4,586
Net income	286		286
Other comprehensive income (loss)	153		153
Contributions from member	3,525		3,525
Distributions	(364)		(364)
June 30, 2010	$ 8,168	$ 18	$ 8,186

(a) See Note 8 for additional information.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Net income	**$ 89**	$ 86	**$ 303**	$ 286
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of $0, $0, $0, ($1)		(67)		(160)
Available-for-sale securities, net of tax of ($1), $21, ($13), $10	**1**	(17)	**13**	(7)
Qualifying derivatives, net of tax of $13, $75, ($21), ($190)	**(21)**	(97)	**29**	285
Defined benefit plans:				
Net actuarial gain, net of tax of $0, ($31), $0, ($31)		80		80
Reclassifications to net income - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of $0, $0, $5, $2	**(1)**	(2)	**(8)**	(4)
Qualifying derivatives, net of tax of $49, $0, $103, $38	**(68)**	(8)	**(147)**	(68)
Equity investee's other comprehensive (income) loss	**1**		**3**	
Defined benefit plans:				
Prior service costs, net of tax of ($1), $0, ($2), ($3)	**1**	4	**2**	5
Net actuarial loss, net of tax of ($1), ($5), ($1), ($6)	**1**	8	**2**	20
Transition obligation		1		2
Total other comprehensive income (loss)	**(86)**	(98)	**(106)**	153
Comprehensive income (loss)	**$ 3**	$ (12)	**$ 197**	$ 439

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Operating Revenues				
Retail electric	**$ 436**	$ 520	**$ 990**	$ 1,331
Electric revenue from affiliate	**4**	2	**8**	4
Total Operating Revenues	**440**	522	**998**	1,335
Operating Expenses				
Operation				
Energy purchases	**169**	209	**420**	619
Energy purchases from affiliate	**4**	64	**10**	179
Other operation and maintenance	**126**	131	**256**	251
Depreciation	**37**	33	**70**	67
Taxes, other than income	**22**	29	**57**	76
Total Operating Expenses	**358**	466	**813**	1,192
Operating Income	**82**	56	**185**	143
Other Income (Expense) - net	**1**	2	**1**	3
Interest Income from Affiliate				1
Interest Expense	**24**	24	**48**	50
Income Before Income Taxes	**59**	34	**138**	97
Income Taxes	**19**	11	**42**	32
Net Income	**40**	23	**96**	65
Distributions on Preferred Securities	**4**	7	**8**	12
Net Income Available to PPL Corporation	**$ 36**	$ 16	**$ 88**	$ 53

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash Flows from Operating Activities		
Net income	**$ 96**	$ 65
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	**70**	67
Defined benefit plans - expense	**9**	11
Deferred income taxes and investment tax credits	**(19)**	29
Other	**2**	9
Change in current assets and current liabilities		
Accounts receivable	**(48)**	(40)
Accounts payable	**(75)**	(29)
Unbilled revenue	**47**	77
Prepayments	**38**	(98)
Regulatory assets and liabilities	**63**	(21)
Taxes	**10**	(34)
Other	**(16)**	(25)
Other operating activities		
Defined benefit plans - funding	**(102)**	(44)
Other assets	**(7)**	14
Other liabilities	**(5)**	(8)
Net cash provided by (used in) operating activities	**63**	(27)
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(244)**	(145)
Other investing activities	**4**	(3)
Net cash provided by (used in) investing activities	**(240)**	(148)
Cash Flows from Financing Activities		
Contributions from parent		55
Redemption of preferred stock		(54)
Payment of common stock dividends to parent	**(52)**	(40)
Net increase (decrease) in note payable to affiliate	**37**	
Distributions on preferred securities	**(8)**	(9)
Net cash provided by (used in) financing activities	**(23)**	(48)
Net Increase (Decrease) in Cash and Cash Equivalents	**(200)**	(223)
Cash and Cash Equivalents at Beginning of Period	**204**	485
Cash and Cash Equivalents at End of Period	**$ 4**	$ 262

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	**$ 4**	$ 204
Accounts receivable (less reserve: 2011, $16; 2010, $17)		
Customer	**311**	268
Other	**21**	24
Accounts receivable from affiliates	**23**	8
Unbilled revenues	**87**	134
Materials and supplies	**48**	47
Prepayments	**98**	136
Regulatory assets	**10**	63
Other current assets	**10**	4
Total Current Assets	**612**	888
Property, Plant and Equipment		
Regulated utility plant	**5,679**	5,494
Less: accumulated depreciation - regulated utility plant	**2,174**	2,123
Regulated utility plant, net	**3,505**	3,371
Other, net	**2**	2
Construction work in progress	**192**	177
Property, Plant and Equipment, net	**3,699**	3,550
Other Noncurrent Assets		
Regulatory assets	**610**	592
Intangibles	**151**	147
Other noncurrent assets	**77**	76
Total Other Noncurrent Assets	**838**	815
Total Assets	**$ 5,149**	$ 5,253

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Note payable to affiliate	**$ 37**	
Accounts payable	**174**	$ 221
Accounts payable to affiliates	**42**	73
Taxes	**33**	23
Interest	**17**	17
Regulatory liabilities	**23**	18
Other current liabilities	**94**	126
Total Current Liabilities	**420**	478
Long-term Debt	**1,472**	1,472
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**952**	932
Accrued pension obligations	**163**	259
Regulatory liabilities	**15**	14
Other deferred credits and noncurrent liabilities	**147**	154
Total Deferred Credits and Other Noncurrent Liabilities	**1,277**	1,359
Commitments and Contingent Liabilities (Notes 6 and 10)		
Shareowners' Equity		
Preferred securities	**250**	250
Common stock - no par value (a)	**364**	364
Additional paid-in capital	**879**	879
Earnings reinvested	**487**	451
Total Equity	**1,980**	1,944
Total Liabilities and Equity	**$ 5,149**	$ 5,253

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at June 30, 2011 and December 31, 2010.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Preferred securities	Common stock	Additional paid-in capital	Earnings reinvested	Total
March 31, 2011	66,368	$ 250	$ 364	$ 879	$ 485	$ 1,978
Net income (b)					40	40
Cash dividends declared on preferred securities					(4)	(4)
Cash dividends declared on common stock					(34)	(34)
June 30, 2011	66,368	$ 250	$ 364	$ 879	$ 487	$ 1,980
December 31, 2010	66,368	$ 250	$ 364	$ 879	$ 451	$ 1,944
Net income (b)					96	96
Cash dividends declared on preferred securities					(8)	(8)
Cash dividends declared on common stock					(52)	(52)
June 30, 2011	66,368	$ 250	$ 364	$ 879	$ 487	$ 1,980
March 31, 2010	66,368	$ 301	$ 364	$ 824	$ 427	$ 1,916
Net income (b)					23	23
Redemption of preferred stock (c)		(51)			(3)	(54)
Capital contributions from PPL				55		55
Cash dividends declared on preferred securities					(4)	(4)
Cash dividends declared on common stock					(23)	(23)
June 30, 2010	66,368	$ 250	$ 364	$ 879	$ 420	$ 1,913
December 31, 2009	66,368	$ 301	$ 364	$ 824	$ 407	$ 1,896
Net income (b)					65	65
Redemption of preferred stock (c)		(51)			(3)	(54)
Capital contributions from PPL				55		55
Cash dividends declared on preferred securities					(9)	(9)
Cash dividends declared on common stock					(40)	(40)
June 30, 2010	66,368	$ 250	$ 364	$ 879	$ 420	$ 1,913

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.
(b) PPL Electric's net income approximates comprehensive income.
(c) In April 2010, PPL Electric redeemed all five series of its outstanding preferred stock.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
Operating Revenues	**$ 638**	$ 603	**$ 1,404**	$ 1,316
Operating Expenses				
Operation				
Fuel	**206**	209	**421**	418
Energy purchases	**40**	40	**147**	161
Other operation and maintenance	**198**	172	**379**	332
Depreciation	**84**	69	**165**	138
Taxes, other than income	**9**	7	**18**	14
Total Operating Expenses	**537**	497	**1,130**	1,063
Operating Income	**101**	106	**274**	253
Other Income (Expense) - net		(14)	**(1)**	(14)
Interest Expense	**36**	7	**72**	13
Interest Expense with Affiliate		39		79
Income from Continuing Operations Before Income Taxes	**65**	46	**201**	147
Income Taxes	**24**	15	**73**	53
Income from Continuing Operations After Income Taxes	**41**	31	**128**	94
Income (Loss) from Discontinued Operations (net of income taxes)		1		(2)
Net Income	**$ 41**	$ 32	**$ 128**	$ 92

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30, 2011 Successor	Six Months Ended June 30, 2010 Predecessor
Cash Flows from Operating Activities		
Net income	**$ 128**	$ 92
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**165**	138
Defined benefit plans - expense	**25**	37
Deferred income taxes and investment tax credits	**146**	48
Unrealized (gains) losses on derivatives		15
Other	**(2)**	(10)
Change in current assets and current liabilities		
Accounts receivable	**15**	(15)
Accounts payable	**(19)**	(24)
Unbilled revenue	**38**	7
Fuel, materials and supplies	**42**	10
Regulatory assets	**4**	22
Income tax receivable	**40**	(10)
Other current assets	**(2)**	9
Regulatory liabilities	**(9)**	(24)
Other current liabilities	**(18)**	(23)
Other operating activities		
Defined benefit plans - funding	**(157)**	(51)
Discontinued operations		28
Change in smelter contract liability		(29)
Other assets	**4**	(8)
Other liabilities	**1**	(4)
Net cash provided by operating activities	**401**	208
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(174)**	(213)
Proceeds from sales of consolidated subsidiaries		14
Proceeds from sales of investments in unconsolidated ventures		7
Proceeds from the sale of other investments	**163**	
Net (increase) decrease in notes receivable from affiliates	**(29)**	
Net (increase) decrease in restricted cash and cash equivalents	**(4)**	
Net cash provided by (used in) investing activities	**(44)**	(192)
Cash Flows from Financing Activities		
Issuance of short-term debt with affiliate		250
Net increase (decrease) in notes payable with affiliates		(32)
Issuance of long-term debt with affiliate		50
Retirement of long-term debt with affiliate		(250)
Net increase (decrease) in short-term debt	**(163)**	
Debt issuance and credit facility costs	**(3)**	
Distributions to member	**(146)**	(31)
Net cash provided by (used in) financing activities	**(312)**	(13)
Net Increase (Decrease) in Cash and Cash Equivalents	**45**	3
Cash and Cash Equivalents at Beginning of Period	**11**	7
Cash and Cash Equivalents at End of Period	**$ 56**	$ 10

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
LG&E AND KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	June 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	**$ 56**	$ 11
Short-term investments		163
Accounts receivable (less reserve: 2011, $17; 2010, $17)		
Customer	**146**	160
Other	**15**	33
Unbilled revenues	**132**	170
Accounts receivable from affiliates		2
Fuel, materials and supplies	**257**	298
Notes receivable from affiliate	**90**	61
Income tax receivable		40
Deferred income taxes	**66**	66
Other intangibles	**29**	58
Regulatory assets	**15**	22
Other current assets	**31**	26
Total Current Assets	**837**	1,110
Investments	**31**	31
Property, Plant and Equipment		
Regulated utility plant	**7,278**	6,230
Less: accumulated depreciation - regulated utility plant	**158**	31
Regulated utility plant, net	**7,120**	6,199
Other, net	**3**	4
Construction work in progress	**465**	1,340
Property, Plant and Equipment, net	**7,588**	7,543
Other Noncurrent Assets		
Regulatory assets	**590**	588
Goodwill	**996**	996
Other intangibles	**335**	356
Other noncurrent assets	**99**	94
Total Other Noncurrent Assets	**2,020**	2,034
Total Assets	**$ 10,476**	$ 10,718

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	June 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Short-term debt		$ 163
Long-term debt	$ **2**	2
Accounts payable	**173**	189
Accounts payable to affiliates	**2**	3
Customer deposits	**46**	46
Taxes	**21**	27
Regulatory liabilities	**54**	91
Other current liabilities	**108**	122
Total Current Liabilities	**406**	643
Long-term Debt	**3,823**	3,823
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**391**	240
Investment tax credits	**147**	150
Price risk management liabilities	**32**	32
Accrued pension obligations	**325**	449
Asset retirement obligations	**105**	103
Regulatory liabilities	**1,008**	1,017
Other deferred credits and noncurrent liabilities	**248**	250
Total Deferred Credits and Other Noncurrent Liabilities	**2,256**	2,241
Commitments and Contingent Liabilities (Notes 6 and 10)		
Member's Equity	**3,991**	4,011
Total Liabilities and Equity	**$ 10,476**	$ 10,718

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Member's Equity	Non-controlling interests	Total
March 31, 2011 - Successor	$ 4,042		$ 4,042
Net income (a)	41		41
Distributions to member	(92)		(92)
June 30, 2011 - Successor	$ 3,991		$ 3,991
December 31, 2010 - Successor	$ 4,011		$ 4,011
Net income (a)	128		128
Distributions to member	(146)		(146)
Other comprehensive income (loss)	(2)		(2)
June 30, 2011 - Successor	$ 3,991		$ 3,991
March 31, 2010 - Predecessor	$ 2,236		$ 2,236
Net income (a)	32		32
Distributions to member	(25)		(25)
Other comprehensive income (loss)	(2)		(2)
June 30, 2010 - Predecessor	$ 2,241		$ 2,241
December 31, 2009 - Predecessor	$ 2,192	$ 32	$ 2,224
Net income (a)	92		92
Distributions to member	(31)		(31)
Disposal of discontinued operations	(11)	(32)	(43)
Other comprehensive income (loss)	(1)		(1)
June 30, 2010 - Predecessor	$ 2,241	$	$ 2,241

(a) LG&E and KU Energy's net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME
Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
	Successor	**Predecessor**	**Successor**	**Predecessor**
Operating Revenues				
Retail and wholesale	**$ 280**	$ 256	**$ 651**	$ 597
Electric revenue from affiliate	**17**	23	**44**	48
Total Operating Revenues	**297**	279	**695**	645
Operating Expenses				
Operation				
Fuel	**82**	90	**167**	173
Energy purchases	**32**	22	**131**	113
Energy purchases from affiliate	**7**	3	**18**	10
Other operation and maintenance	**91**	82	**181**	165
Depreciation	**37**	35	**73**	69
Taxes, other than income	**5**	4	**9**	8
Total Operating Expenses	**254**	236	**579**	538
Operating Income	**43**	43	**116**	107
Other Income (Expense) - net	**1**	(10)		(12)
Interest Expense	**12**	5	**23**	9
Interest Expense with Affiliate		7		14
Income Before Income Taxes	**32**	21	**93**	72
Income Taxes	**12**	7	**34**	25
Net Income	**$ 20**	$ 14	**$ 59**	$ 47

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30, 2011 Successor	Six Months Ended June 30, 2010 Predecessor
Cash Flows from Operating Activities		
Net income	**$ 59**	$ 47
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**73**	69
Defined benefit plans - expense	**17**	11
Deferred income taxes and investment tax credits	**27**	18
Unrealized (gains) losses on derivatives		15
Other	**4**	(2)
Change in current assets and current liabilities		
Accounts receivable	**17**	(19)
Accounts payable	**(18)**	(8)
Unbilled revenue	**27**	6
Fuel, materials and supplies	**40**	29
Regulatory assets	**1**	3
Income tax receivable		(12)
Other current assets	**(4)**	3
Regulatory liabilities	**(4)**	(26)
Taxes		(15)
Other current liabilities	**(2)**	(1)
Other operating activities		
Defined benefit plans - funding	**(67)**	(23)
Other assets	**5**	(1)
Other liabilities		(10)
Net cash provided by operating activities	**175**	84
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(77)**	(68)
Proceeds from the sale of assets to affiliate		48
Proceeds from the sale of other investments	**163**	
Net (increase) decrease in restricted cash and cash equivalents	**(4)**	
Net cash provided by (used in) investing activities	**82**	(20)
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates	**(12)**	(33)
Net increase (decrease) in short-term debt	**(163)**	
Debt issuance and credit facility costs	**(1)**	
Payment of common stock dividends to parent	**(42)**	(30)
Net cash provided by (used in) financing activities	**(218)**	(63)
Net Increase (Decrease) in Cash and Cash Equivalents	**39**	1
Cash and Cash Equivalents at Beginning of Period	**2**	5
Cash and Cash Equivalents at End of Period	**$ 41**	$ 6

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	**$ 41**	$ 2
Short-term investments		163
Accounts receivable (less reserve: 2011, $2; 2010, $2)		
Customer	**67**	70
Other	**6**	13
Unbilled revenues	**54**	81
Accounts receivable from affiliates	**13**	30
Fuel, materials and supplies	**122**	162
Regulatory assets	**11**	13
Other intangibles	**18**	36
Other current assets	**21**	13
Total Current Assets	**353**	583
Property, Plant and Equipment		
Regulated utility plant	**2,868**	2,600
Less: accumulated depreciation - regulated utility plant	**68**	17
Regulated utility plant, net	**2,800**	2,583
Construction work in progress	**181**	385
Property, Plant and Equipment, net	**2,981**	2,968
Other Noncurrent Assets		
Regulatory assets	**363**	367
Goodwill	**389**	389
Other intangibles	**174**	181
Other noncurrent assets	**33**	31
Total Other Noncurrent Assets	**959**	968
Total Assets	**$ 4,293**	$ 4,519

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Short-term debt		$ 163
Notes payable with affiliates		12
Accounts payable	$ **87**	100
Accounts payable to affiliates	**13**	20
Customer deposits	**23**	23
Taxes	**10**	10
Regulatory liabilities	**29**	51
Other current liabilities	**37**	38
Total Current Liabilities	**199**	417
Long-term Debt	**1,112**	1,112
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**453**	419
Investment tax credits	**44**	46
Accrued pension obligations	**72**	126
Asset retirement obligations	**50**	49
Regulatory liabilities	**480**	483
Price risk management liabilities	**32**	32
Other deferred credits and noncurrent liabilities	**113**	114
Total Deferred Credits and Other Noncurrent Liabilities	**1,244**	1,269
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	**424**	424
Additional paid-in capital	**1,278**	1,278
Earnings reinvested	**36**	19
Total Equity	**1,738**	1,721
Total Liabilities and Equity	**$ 4,293**	$ 4,519

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at June 30, 2011 and December 31, 2010.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
March 31, 2011 - Successor	21,294	$ 424	$ 1,278	$ 41		$ 1,743
Net income (b)				20		20
Cash dividends declared on common stock				(25)		(25)
June 30, 2011 - Successor	21,294	$ 424	$ 1,278	$ 36		$ 1,738
December 31, 2010 - Successor	21,294	$ 424	$ 1,278	$ 19		$ 1,721
Net income (b)				59		59
Cash dividends declared on common stock				(42)		(42)
June 30, 2011 - Successor	21,294	$ 424	$ 1,278	$ 36		$ 1,738
March 31, 2010 - Predecessor	21,294	$ 424	$ 84	$ 758	$ (11)	$ 1,255
Net income (b)				14		14
Other comprehensive income (loss)					(2)	(2)
June 30, 2010 - Predecessor	21,294	$ 424	$ 84	$ 772	$ (13)	$ 1,267
December 31, 2009 - Predecessor	21,294	$ 424	$ 84	$ 755	$ (10)	$ 1,253
Net income (b)				47		47
Cash dividends declared on common stock				(30)		(30)
Other comprehensive income (loss)					(3)	(3)
June 30, 2010 - Predecessor	21,294	$ 424	$ 84	$ 772	$ (13)	$ 1,267

(a) Shares in thousands. All common shares of Louisville Gas and Electric stock are owned by LG&E and KU Energy.
(b) Louisville Gas and Electric's net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED STATEMENTS OF INCOME
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
	Successor	**Predecessor**	**Successor**	**Predecessor**
Operating Revenues				
Retail and wholesale	**$ 358**	$ 347	**$ 753**	$ 720
Electric revenue from affiliate	**7**	3	**18**	10
Total Operating Revenues	**365**	350	**771**	730
Operating Expenses				
Operation				
Fuel	**124**	119	**254**	245
Energy purchases	**8**	19	**16**	48
Energy purchases from affiliate	**17**	23	**44**	48
Other operation and maintenance	**100**	81	**184**	157
Depreciation	**47**	34	**92**	68
Taxes, other than income	**4**	3	**9**	6
Total Operating Expenses	**300**	279	**599**	572
Operating Income	**65**	71	**172**	158
Other Income (Expense) - net		(2)	**1**	1
Interest Expense	**17**	1	**35**	3
Interest Expense with Affiliate		19		37
Income Before Income Taxes	**48**	49	**138**	119
Income Taxes	**18**	18	**50**	44
Net Income	**$ 30**	$ 31	**$ 88**	$ 75

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30,	
	2011	**2010**
	Successor	**Predecessor**
Cash Flows from Operating Activities		
Net income	**$ 88**	$ 75
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**92**	68
Defined benefit plans - expense	**14**	7
Deferred income taxes and investment tax credits	**49**	29
Other	**(2)**	(2)
Change in current assets and current liabilities		
Accounts receivable	**6**	(1)
Accounts payable	**(17)**	11
Unbilled revenue	**11**	1
Fuel, materials and supplies	**1**	(17)
Regulatory assets	**3**	19
Income tax receivable		(15)
Other current assets		6
Regulatory liabilities	**(4)**	2
Taxes	**(14)**	(5)
Other current liabilities		(5)
Other operating activities		
Defined benefit plans - funding	**(45)**	(16)
Other assets	**(1)**	(4)
Other liabilities		2
Net cash provided by operating activities	**181**	155
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(97)**	(145)
Purchases of assets from affiliate		(48)
Net cash provided by (used in) investing activities	**(97)**	(193)
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates	**(10)**	39
Debt issuance and credit facility costs	**(2)**	
Payment of common stock dividends to parent	**(68)**	
Net cash provided by (used in) financing activities	**(80)**	39
Net Increase (Decrease) in Cash and Cash Equivalents	**4**	1
Cash and Cash Equivalents at Beginning of Period	**3**	2
Cash and Cash Equivalents at End of Period	**$ 7**	$ 3

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	**$ 7**	$ 3
Accounts receivable (less reserve: 2011, $2; 2010, $6)		
Customer	**79**	90
Other	**9**	20
Unbilled revenues	**78**	89
Accounts receivable from affiliates	**5**	12
Fuel, materials and supplies	**135**	136
Regulatory assets	**4**	9
Other intangibles	**11**	22
Other current assets	**18**	15
Total Current Assets	**346**	396
Investments	**30**	30
Property, Plant and Equipment		
Regulated utility plant	**4,410**	3,630
Less: accumulated depreciation - regulated utility plant	**90**	14
Regulated utility plant, net	**4,320**	3,616
Construction work in progress	**283**	955
Property, Plant and Equipment, net	**4,603**	4,571
Other Noncurrent Assets		
Regulatory assets	**227**	221
Goodwill	**607**	607
Other intangibles	**161**	175
Other noncurrent assets	**60**	58
Total Other Noncurrent Assets	**1,055**	1,061
Total Assets	**$ 6,034**	$ 6,058

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Notes payable with affiliates		$ 10
Accounts payable	**$ 73**	67
Accounts payable to affiliates	**26**	45
Customer deposits	**23**	23
Taxes	**11**	25
Regulatory liabilities	**25**	40
Other current liabilities	**39**	41
Total Current Liabilities	**197**	251
Long-term Debt	**1,841**	1,841
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**429**	376
Investment tax credits	**103**	104
Accrued pension obligations	**79**	113
Asset retirement obligations	**55**	54
Regulatory liabilities	**528**	534
Other deferred credits and noncurrent liabilities	**92**	94
Total Deferred Credits and Other Noncurrent Liabilities	**1,286**	1,275
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	**308**	308
Additional paid-in capital	**2,348**	2,348
Accumulated other comprehensive income (loss)	**(1)**	
Earnings reinvested	**55**	35
Total Equity	**2,710**	2,691
Total Liabilities and Equity	**$ 6,034**	$ 6,058

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at June 30, 2011 and December 31, 2010.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)		Common stock		Additional paid-in capital		Earnings reinvested		Accumulated other comprehensive income (loss)		Total
March 31, 2011 - Successor	37,818	$	308	$	2,348	$	62	$	(1)	$	2,717
Net income (b)							30				30
Cash dividends declared on common stock							(37)				(37)
June 30, 2011 - Successor	37,818	$	308	$	2,348	$	55	$	(1)	$	2,710
December 31, 2010 - Successor	37,818	$	308	$	2,348	$	35			$	2,691
Net income (b)							88				88
Cash dividends declared on common stock							(68)				(68)
Other comprehensive income (loss)								$	(1)		(1)
June 30, 2011 - Successor	37,818	$	308	$	2,348	$	55	$	(1)	$	2,710
March 31, 2010 - Predecessor	37,818	$	308	$	316	$	1,372			$	1,996
Net income (b)							31				31
June 30, 2010 - Predecessor	37,818	$	308	$	316	$	1,403			$	2,027
December 31, 2009 - Predecessor	37,818	$	308	$	316	$	1,328			$	1,952
Net income (b)							75				75
June 30, 2010 - Predecessor	37,818	$	308	$	316	$	1,403			$	2,027

(a) Shares in thousands. All common shares of Kentucky Utilities stock are owned by LG&E and KU Energy.
(b) Kentucky Utilities' net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

Combined Notes to Condensed Financial Statements (Unaudited)

1 . Interim Financial Statements

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are explained in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with accounting principles generally accepted in the U.S. are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2010 is derived from that Registrant's 2010 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2010 Form 10-K (in the case of PPL and PPL Electric), in the Form 8-K dated June 24, 2011 (in the case of PPL Energy Supply), or the annual financial statements included in the 2011 Registration Statements (in the case of LKE, LG&E and KU). The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of the results to be expected for the full year ending December 31, 2011 or other future periods, because results for interim periods can be disproportionately influenced by various factors and developments and seasonal variations.

The classification of certain prior period amounts has been changed to conform to the presentation in the June 30, 2011 financial statements.

(PPL)

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands), from subsidiaries of E.ON AG. See Note 8 for additional information. Since PPL is consolidating WPD Midlands on a one-month lag, two months of WPD Midlands' operating results are included in PPL's results of operations for the three and six months ended June 30, 2011 with no comparable amounts for the same periods in 2010. See Note 2 for additional information regarding PPL's consolidation policy.

In November 2010, PPL completed the acquisition of LKE. See Notes 1 and 10 in PPL's 2010 Form 10-K for additional information. LKE's operating results for the three and six months ended June 30, 2011 are included in PPL's results of operations with no comparable amounts for the same periods in 2010.

(LKE, LG&E and KU)

LKE's, LG&E's and KU's financial statements and accompanying footnotes have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives in the Successor financial statements to conform to PPL's accounting policies, which are discussed in the annual financial statements included in each 2011 Registration Statement for LKE, LG&E and KU. The cost bases of certain assets and liabilities were changed as of November 1, 2010 as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor period are not comparable to the Predecessor period.

(PPL Energy Supply)

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global, representing 100% of the outstanding membership interest of PPL Global, to PPL Energy Supply's parent, PPL Energy Funding. The distribution was made based on the book value of the assets and liabilities of PPL Global with financial effect as of January 1, 2011. See Note 8 for additional information.

(PPL, PPL Energy Supply and LKE)

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income includes the activities of various businesses that were sold or distributed in 2011 and 2010. See Note 8 for additional information. The Statements of Cash Flows do not separately report the cash flows of the Discontinued Operations, except for the LKE Predecessor period, which separately discloses these cash flows within operating, investing and financing activities, consistent with LKE's pre-acquisition accounting policy.

(LG&E)

During the second quarter of 2011, LG&E made out-of-period adjustments to correct the calculation of the revenue collected through the ECR and DSM rate mechanisms. The correction reduced LG&E's revenues by $4 million ($2 million after tax). The adjustments for LG&E related to 2010 and the first quarter of 2011. The impacts were not material to any previously reported financial statements, and are not expected to be material to the financial statements for the full year of 2011.

2 . Summary of Significant Accounting Policies

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The following accounting policy disclosures represent updates to Note 1 in each Registrant's 2010 Form 10-K (in the case of PPL and PPL Electric), in the Form 8-K dated June 24, 2011 (in the case of PPL Energy Supply), or in the annual financial statements included in the 2011 Registration Statements (in the case of LKE, LG&E and KU) and should be read in conjunction with those disclosures.

General

Business and Consolidation *(PPL)*

As noted above, on April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed the acquisition of WPD Midlands. PPL is consolidating WPD Midlands on a one-month lag. Material intervening events, such as debt issuances that occur in the lag period, are recognized in the current period financial statements. Events that are significant but not material are disclosed. See Note 8 for additional information.

Regulation *(PPL, PPL Electric, LKE, LG&E and KU)*

The electricity distribution subsidiaries of PPL WW and PPL WEM are not subject to accounting for the effects of certain types of regulation as prescribed by GAAP, as their operations do not meet the requirements for such accounting guidance. However, PPL Electric, LG&E and KU all apply this accounting guidance.

Accounts Receivable *(PPL, PPL Energy Supply and PPL Electric)*

PPL Electric's customers may elect to procure generation supply from an alternative supplier. As a result of a PUC-approved purchase of accounts receivable program, PPL Electric has purchased certain accounts receivable from alternative suppliers at a nominal discount, which reflects a provision for uncollectible accounts. The alternative suppliers (including PPL Electric's affiliate, PPL EnergyPlus) have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. PPL Electric receives a nominal fee for administering its program. During the three and six months ended June 30, 2011, PPL Electric purchased $187 million and $452 million of accounts receivable from unaffiliated third parties and $57 million and $120 million from its affiliate, PPL EnergyPlus. During the three and six months ended June 30, 2010, PPL Electric purchased $149 million and $225 million of accounts receivable from unaffiliated third parties and $58 million and $91 million from its affiliate, PPL EnergyPlus.

New Accounting Guidance Adopted *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

No new accounting guidance has been adopted during the three or six months ended June 30, 2011. See Note 18 for a discussion of new accounting guidance pending adoption.

3 . Segment and Related Information

(PPL and PPL Energy Supply)

See Note 2 to the Financial Statements in the 2010 Form 10-K for PPL and in the Form 8-K dated June 24, 2011 for PPL Energy Supply for a discussion of reportable segments. In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. Following the distribution, PPL Energy Supply operates in a single business segment, the Supply segment. PPL Energy Supply's 2010 segment information was restated to reflect PPL Global as a Discontinued Operation. See Note 8 for additional information.

(PPL)

PPL includes the results of PPL Global in the International Regulated segment. This includes the operating results and assets of WPD Midlands since the acquisition date, April 1, 2011. See Note 8 for additional information regarding the acquisition.

Financial data for the segments for the periods ended June 30, 2011 are:

	Three Months		Six Months	
	2011	2010	2011	2010
PPL				
Income Statement Data				
Revenues from external customers				
Kentucky Regulated (a)	$ 638		$ 1,404	
International Regulated	420	$ 178	645	$ 391
Pennsylvania Regulated	436	520	990	1,331
Supply (b)	995	775	2,360	2,757
Total	$ 2,489	$ 1,473	$ 5,399	$ 4,479
Intersegment electric revenues				
Pennsylvania Regulated	$ 4	$ 2	$ 8	$ 4
Supply (c)	4	64	10	179
Net Income Attributable to PPL				
Kentucky Regulated (a)	$ 31		$ 106	
International Regulated (b)	38	$ 58	93	$ 134
Pennsylvania Regulated	36	16	88	53
Supply (b) (d) (e)	91	30	310	167
Unallocated Costs (f)		(19)		(19)
Total	$ 196	$ 85	$ 597	$ 335
PPL Energy Supply				
Income Statement Data				
Revenues from external customers				
Supply (b)	$ 997	$ 835	$ 2,366	$ 2,929
Net Income				
International Regulated (b) (d)		$ 53		$ 121
Supply (b) (d) (e)	$ 89	33	$ 303	165
Total	$ 89	$ 86	$ 303	$ 286

	PPL		PPL Energy Supply	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Balance Sheet Data				
Assets				
Kentucky Regulated (g)	$ 10,087	$ 10,318		
International Regulated	13,387	4,800		$ 4,800
Pennsylvania Regulated	5,086	5,189		
Supply (g)	11,977	12,530	$ 11,432	11,996
Total assets	$ 40,537	$ 32,837	$ 11,432	$ 16,796

(a) This segment primarily includes the operating activities and assets of LKE, which was acquired in November 2010. Net income attributable to PPL includes the allocation of interest expense from the 2010 Equity Units issued to fund the acquisition and interest rate swaps.
(b) Includes unrealized gains and losses from economic activity. See Note 14 for additional information.
(c) See "PLR Contracts" in Note 11 for a discussion of the basis of accounting between reportable segments.
(d) Either includes Discontinued Operations or is reported in Discontinued Operations. See Note 8 for additional information.

(e) In April 2011, during the PPL Susquehanna Unit 2 scheduled refueling and generation uprate outage, a planned inspection of the Unit 2 turbine revealed cracks in certain of its low pressure turbine blades. As a precaution, PPL Susquehanna also took Unit 1 out of service in mid-May to inspect the turbine blades in that unit. This inspection revealed cracked blades similar to those found in Unit 2. Replacement of these blades was completed, which significantly extended these outages. PPL Energy Supply incurred an after-tax earnings impact, including reduced energy sales margins and repair expense for both units, of approximately $60 million in the three and six months ended June 30, 2011.

(f) Represents 2010 Bridge Facility financing costs and other costs related to the acquisition of LKE.

(g) A portion of the goodwill related to the 2010 LKE acquisition has been attributed to PPL's Supply segment.

4 . Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of shares outstanding that are increased for additional shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares. In 2011 and 2010, these securities included stock options, performance units granted under incentive compensation plans and the 2010 Purchase Contract component of the 2010 Equity Units. Additionally, in 2011, these securities included the 2011 Purchase Contract component of the 2011 Equity Units. The 2011 Purchase Contracts will be dilutive only if the average VWAP of PPL's common stock for a certain period exceeds approximately $30.99. The 2010 Purchase Contracts will be dilutive only if the average VWAP of PPL's common stock for a certain period exceeds $28.80. Because the average VWAP has not exceeded either applicable value since issuance, the 2011 and 2010 Purchase Contracts were excluded from the diluted EPS calculations. Subject to antidilution adjustments at June 30, 2011, the maximum number of shares issuable to settle the Purchase Contracts was 105,202,345 shares, including 86,552,565 shares that could be issued under standard provisions of the Purchase Contracts and 18,649,780 shares that could be issued under make-whole provisions in the event of early settlement upon a Fundamental Change. See Note 7 for additional information on the 2011 Equity Units.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended June 30 used in the EPS calculation are:

	Three Months		Six Months	
	2011	**2010**	**2011**	**2010**
Income (Numerator)				
Income from continuing operations after income taxes attributable to PPL	$ 197	$ 78	$ 595	$ 320
Less amounts allocated to participating securities	1		3	1
Income from continuing operations after income taxes available to PPL common shareowners	$ 196	$ 78	$ 592	$ 319
Income (loss) from discontinued operations (net of income taxes) available to PPL	$ (1)	$ 7	$ 2	$ 15
Net income attributable to PPL	$ 196	$ 85	$ 597	$ 335
Less amounts allocated to participating securities	1		3	1
Net income available to PPL common shareowners	$ 195	$ 85	$ 594	$ 334
Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	561,652	381,896	522,897	379,810
Add incremental non-participating securities:				
Stock options and performance units	367	179	287	224
Weighted-average shares - Diluted EPS	562,019	382,075	523,184	380,034
Basic EPS				
Available to PPL common shareowners:				
Income from continuing operations after income taxes	$ 0.35	$ 0.20	$ 1.13	$ 0.84
Income (loss) from discontinued operations (net of income taxes)		0.02	0.01	0.04
Net Income	$ 0.35	$ 0.22	$ 1.14	$ 0.88
Diluted EPS				
Available to PPL common shareowners:				
Income from continuing operations after income taxes	$ 0.35	$ 0.20	$ 1.13	$ 0.84
Income (loss) from discontinued operations (net of income taxes)		0.02	0.01	0.04
Net Income	$ 0.35	$ 0.22	$ 1.14	$ 0.88

For the periods ended June 30 the following stock options to purchase PPL common stock and performance units were excluded from the computations of diluted EPS because the effect would have been antidilutive.

(Shares in thousands)	Three Months 2011	Three Months 2010	Six Months 2011	Six Months 2010
Stock options	5,045	5,184	5,829	4,669
Performance units	1	105	4	91

During the three and six months ended June 30, 2011, PPL issued 48,592 and 392,972 shares of common stock related to the exercise of stock options, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors under its stock-based compensation plans. In addition, PPL issued 598,198 and 1,179,909 shares of common stock related to its DRIP during the three and six months ended June 30, 2011. PPL also issued 301,319 shares related to its ESOP during the six months ended June 30, 2011 .

See Note 7 for information on the April 2011 issuance of common stock and 2011 Equity Units.

5 . Income Taxes

Reconciliations of income tax expense for the periods ended June 30 are:

(PPL)

	Three Months 2011	Three Months 2010	Six Months 2011	Six Months 2010
Reconciliation of Income Tax Expense				
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 104	$ 32	$ 323	$ 163
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	14	1	39	15
State valuation allowance adjustments (a)			11	(8)
Impact of lower U.K. income tax rates (b)	(11)	(3)	(19)	(7)
U.S. income tax on foreign earnings - net of foreign tax credit (c)	(9)	(8)	(15)	(6)
Federal and state tax reserve adjustments (d)	(2)	1	(3)	(7)
Foreign tax reserve adjustments (e)		22		22
Domestic manufacturing deduction (f)		(8)		(12)
Health Care Reform (g)				8
Foreign losses resulting from restructuring (e)		(25)		(25)
Federal income tax credits	(2)	(2)	(7)	(4)
Amortization of investment tax credit	(1)	(1)	(4)	(2)
Depreciation not normalized (a)	(2)		(6)	
Nondeductible acquisition-related costs (h)	8		8	
Other	(3)	(2)	(8)	(4)
Total increase (decrease)	(8)	(25)	(4)	(30)
Total income taxes from continuing operations	$ 96	$ 7	$ 319	$ 133

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. Due to the reduction in projected Pennsylvania taxable income for tax years 2011 and 2012 related to the 100% bonus depreciation deduction, PPL adjusted its deferred tax valuation allowances for Pennsylvania net operating losses. As a result, during the six months ended June 30, 2011 PPL recorded $11 million of deferred income tax expense.

Additionally, the 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation.

(b) The U.K.'s Finance Act of 2010, enacted in July 2010, included a reduction in the U.K. statutory income tax rate. Effective April 1, 2011, the statutory income tax rate was reduced from 28% to 27%.

(c) During the three and six months ended June 30, 2011, PPL recorded a $7 million and $14 million federal income tax benefit related to U.K. pension contributions.

(d) During the six months ended June 30, 2010, PPL recorded a $6 million federal income tax benefit related to claims associated with foreign earnings.

(e) During the three and six months ended June 30, 2010, PPL recorded a $25 million foreign tax benefit and a related $22 million foreign tax reserve in conjunction with losses resulting from restructuring in the U.K. These losses offset tax on a deferred gain from a prior year sale of WPD's supply business.

(f) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation eliminates the estimated income tax benefit related to the domestic manufacturing deduction in 2011.

(g) Beginning in 2013, provisions within Health Care Reform eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, PPL recorded deferred income tax expense in the first quarter of 2010. See Note 9 for additional information.

(h) During the three and six months ended June 30, 2011, PPL recorded nondeductible acquisition-related costs (primarily the U.K. stamp duty tax) associated with its acquisition of WPD Midlands. See Note 8 for additional information on the acquisition.

In July 2011, the U.K. Finance Act 2011 was enacted. The most significant change to the law was a reduction in the U.K.'s statutory income tax rate. The statutory tax rate was changed from 27% to 26%, effective April 1, 2011 and from 26% to 25%, effective April 1, 2012. As a result of these changes, PPL expects to record a deferred tax benefit in the range of $65 million to $ 75 million in the third quarter of 2011.

(PPL Energy Supply)

	Three Months		Six Months	
	2011	2010	2011	2010
Reconciliation of Income Tax Expense				
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 52	$ 10	$ 176	$ 82
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	10	1	27	12
State valuation allowance adjustments (a)			6	
Domestic manufacturing deduction (b)		(8)		(12)
Health Care Reform (c)				5
Federal income tax credits	(1)	(1)	(6)	(3)
Other	(2)	1	(2)	1
Total increase (decrease)	7	(7)	25	3
Total income taxes from continuing operations	$ 59	$ 3	$ 201	$ 85

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for Federal income tax purposes. Due to the reduction in projected Pennsylvania taxable income for tax years 2011 and 2012 related to the 100% bonus depreciation deduction, PPL Energy Supply adjusted its deferred tax valuation allowances for Pennsylvania net operating losses. As a result, during the six months ended June 30, 2011, PPL Energy Supply recorded $6 million of deferred income tax expense.

(b) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation eliminates the estimated tax benefit related to the domestic manufacturing deduction in 2011.

(c) Beginning in 2013, provisions within Health Care Reform eliminated the income tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, PPL Energy Supply recorded deferred income tax expense in the first quarter of 2010. See Note 9 for additional information.

(PPL Electric)

	Three Months		Six Months	
	2011	2010	2011	2010
Reconciliation of Income Tax Expense				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 21	$ 12	$ 48	$ 34
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3	1	7	4
Federal and state tax reserve adjustments	(2)	(2)	(4)	(4)
Federal and state income tax return adjustments			(2)	
Depreciation not normalized (a)	(2)		(5)	
Other	(1)		(2)	(2)
Total increase (decrease)	(2)	(1)	(6)	(2)
Total income taxes	$ 19	$ 11	$ 42	$ 32

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for Federal income tax purposes. The 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation.

(LKE)

	Three Months		Six Months	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
Reconciliation of Income Tax Expense				
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 23	$ 16	$ 70	$ 51
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	2		7	4
Other	(1)	(1)	(4)	(2)
Total increase (decrease)	1	(1)	3	2
Total income taxes from continuing operations	$ 24	$ 15	$ 73	$ 53

(LG&E)

	Three Months		Six Months	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
Reconciliation of Income Tax Expense				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 11	$ 7	$ 33	$ 25
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	1	1	3	2
Other		(1)	(2)	(2)
Total increase (decrease)	1		1	
Total income taxes	$ 12	$ 7	$ 34	$ 25

(KU)

	Three Months		Six Months	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
Reconciliation of Income Tax Expense				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 17	$ 17	$ 48	$ 42
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	2	2	4	4
Other	(1)	(1)	(2)	(2)
Total increase (decrease)	1	1	2	2
Total income taxes	$ 18	$ 18	$ 50	$ 44

Unrecognized Tax Benefits *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

Changes to unrecognized tax benefits for the periods ended June 30 were as follows.

	Three Months		Six Months	
	2011	2010	2011	2010
PPL				
Beginning of period	$ 251	$ 201	$ 251	$ 212
Additions based on tax positions of prior years	1	2	1	4
Reductions based on tax positions of prior years				(6)
Additions based on tax positions related to the current year		30		30
Reductions based on tax positions related to the current year	(1)		(2)	(5)
Settlements		(5)		(1)
Lapse of applicable statutes of limitations	(3)	(2)	(5)	(4)
Effects of foreign currency translation	2	(2)	5	(6)
End of period	$ 250	$ 224	$ 250	$ 224
PPL Energy Supply				
Beginning of period	$ 28	$ 115	$ 183	$ 124
Additions based on tax positions of prior years		2		2
Reductions based on tax positions of prior years				(4)
Additions based on tax positions related to the current year		30		30
Reductions based on tax positions related to the current year		(3)		(3)
Settlements				(1)
Derecognition (a)			(155)	
Effects of foreign currency translation		(2)		(6)
End of period	$ 28	$ 142	$ 28	$ 142
PPL Electric				
Beginning of period	$ 59	$ 72	$ 62	$ 74
Additions based on tax positions of prior years				2
Reductions based on tax positions of prior years				(2)
Reductions based on tax positions related to the current year		(2)	(1)	(2)
Lapse of applicable statutes of limitations	(3)	(2)	(5)	(4)
End of period	$ 56	$ 68	$ 56	$ 68

(a) Represents unrecognized tax benefits derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 8 for additional information on the distribution.

LKE's, LG&E's and KU's unrecognized tax benefits and changes in those unrecognized tax benefits are insignificant for the three and six months ended June 30, 2011 and 2010.

At June 30, 2011, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase or decrease by the following amounts. For LKE, LG&E and KU, no significant changes in unrecognized tax benefits are projected over the next 12 months.

	Increase	Decrease
PPL	$ 25	$ 231
PPL Energy Supply		26
PPL Electric	26	41

These changes could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the creditability of foreign taxes, the timing and utilization of foreign tax credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

At June 30, the total unrecognized tax benefits and related indirect effects that, if recognized, would decrease the effective tax rate were as follows. The amounts for LKE, LG&E and KU were insignificant.

	2011	2010
PPL	$ 185	$ 132
PPL Energy Supply	12	112
PPL Electric	10	11

Tax Litigation *(PPL and PPL Electric)*

In January 2011, the IRS appealed, to the U.S. Court of Appeals for the Third Circuit, the U.S. Tax Court's decision that the 1997 U.K. Windfall Profits Tax (WPT) is a creditable tax for U.S. Federal income tax purposes. In its decision, the Tax Court ruled on two issues: (1) the 1997 U.K. WPT imposed on all U.K. privatized utilities, including PPL's U.K. subsidiary, was creditable against the Company's U.S. income taxes; and (2) PPL Electric's street lighting assets could be depreciated for tax purposes over seven years as permitted for "property without a class life" instead of the 20-year depreciation recovery period argued by the IRS. The IRS is not appealing the street lighting decision. PPL filed its tax returns for 1997 and all intervening years on the basis that the WPT was creditable and that the appropriate tax depreciable life for its street lighting assets was seven years. Therefore, the cash benefit resulting from these items has already been realized. PPL cannot predict the outcome of this matter.

6 . Utility Rate Regulation

(PPL, PPL Electric, LKE, LG&E and KU)

The following tables provide information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

	PPL		PPL Electric	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Current Regulatory Assets:				
Generation supply charge		$ 45		$ 45
Universal service rider	$ 6	10	$ 6	10
Other	19	30	4	8
Total current regulatory assets	$ 25	$ 85	$ 10	$ 63

	PPL		PPL Electric	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Noncurrent Regulatory Assets:				
Defined benefit plans	$ 588	$ 592	$ 258	$ 262
Taxes recoverable through future rates	268	254	268	254
Storm costs	128	129	7	7
Unamortized loss on debt	58	61	25	27
Interest rate swaps	44	43		
Accumulated cost of removal of utility plant (a)	40	35	40	35
Coal contracts (b)	16	22		
Other	58	44	12	7
Total noncurrent regulatory assets	$ 1,200	$ 1,180	$ 610	$ 592
Current Regulatory Liabilities:				
Coal contracts (b)	$ 23	$ 46		
Generation supply charge	16		$ 16	
ECR	9	12		
PURTA tax	5	10	5	$ 10
Transmission service charge		8		8
Other	24	33	2	
Total current regulatory liabilities	$ 77	$ 109	$ 23	$ 18
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	$ 638	$ 623		
Coal contracts (b)	197	213		
Power purchase agreement - OVEC (b)	120	124		
Net deferred tax assets	36	40		
Act 129 compliance rider	15	14	$ 15	$ 14
Defined benefit plans	10	10		
Other	7	7		
Total noncurrent regulatory liabilities	$ 1,023	$ 1,031	$ 15	$ 14

	LKE		LG&E		KU	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Current Regulatory Assets:						
ECR		$ 5		$ 5		
Coal contracts (b)	$ 3	5	$ 1	1	$ 2	$ 4
Gas supply clause	5	4	5	4		
Fuel adjustment clause	7	3	5	3	2	
Virginia fuel factor		5				5
Total current regulatory assets	$ 15	$ 22	$ 11	$ 13	$ 4	$ 9
Noncurrent Regulatory Assets:						
Defined benefit plans	$ 330	$ 330	$ 213	$ 213	$ 117	$ 117
Storm costs	121	122	61	65	60	57
Unamortized loss on debt	33	34	21	22	12	12
Interest rate swaps	44	43	44	43		
Coal contracts (b)	16	22	6	8	10	14
Other	46	37	18	16	28	21
Total noncurrent regulatory assets	$ 590	$ 588	$ 363	$ 367	$ 227	$ 221
Current Regulatory Liabilities:						
Coal contracts (b)	$ 23	$ 46	$ 15	$ 31	$ 8	$ 15
ECR	9	12			9	12
Other	22	33	14	20	8	13
Total current regulatory liabilities	$ 54	$ 91	$ 29	$ 51	$ 25	$ 40
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	$ 638	$ 623	$ 281	$ 275	$ 357	$ 348
Coal contracts (b)	197	213	83	87	114	126
Power purchase agreement - OVEC (b)	120	124	83	86	37	38
Net deferred tax assets	36	40	31	34	5	6
Defined benefit plans	10	10			10	10
Other	7	7	2	1	5	6
Total noncurrent regulatory liabilities	$ 1,008	$ 1,017	$ 480	$ 483	$ 528	$ 534

(a) The December 31, 2010 balance of accumulated cost of removal of utility plant was reclassified from "Accumulated depreciation - regulated utility plant" to noncurrent "Regulatory assets" on the Balance Sheets. These costs will continue to be included in future rate proceedings.
(b) These regulatory assets and liabilities were recorded as offsets to certain intangible assets and liabilities that were recorded at fair value upon the acquisition of LKE.

Regulatory Matters

Kentucky Activities *(PPL, LKE, LG&E and KU)*

Environmental Upgrades

In order to achieve compliance with new and pending federal EPA regulations including CSAPR and the MACT rule, in June 2011, LG&E and KU filed an ECR plan with the KPSC requesting approval to install environmental upgrades for their coal-fired plants and recovery of the expected $2.5 billion in associated capital costs, as well as operating expenses, as incurred. The ECR plan details upgrades that will be made to certain of their coal-fired generating stations to continue to be compliant with EPA regulations. Additionally, LG&E and KU notified the KPSC that a likely further effect of the new requirements is to accelerate the retirement of three other older coal-fired plants requiring LG&E and KU to replace the lost energy supplied by those plants.

LG&E requested $1.4 billion to modernize the scrubbers at the Mill Creek generating station as well as install fabric-filter baghouse systems for increased particulate and mercury control on all units at Mill Creek and for Unit 1 at Trimble County. In its KPSC application, LG&E estimated the impact on rates to LG&E's electric customers to be an increase of 2.3% in 2012, growing to an increase of 19.2% in 2016. KU requested $1.1 billion for upgrades that include fabric-filter baghouse systems for increased particulate and mercury control on units at the E.W. Brown and Ghent generating stations and the conversion of a wet storage facility to a dry landfill at the E.W. Brown generating station. In its KPSC application, KU estimated the impact on rates to KU's electric customers to be an increase of 1.5% in 2012, growing to an increase of 12.2% in 2016.

Certain parties have submitted interventions in the ECR proceedings. The KPSC issued a procedural schedule under which data discovery is expected to continue into the fourth quarter. A KPSC order is anticipated to be issued in December 2011. LG&E and KU cannot predict the outcome of these proceedings.

Integrated Resource Planning

Integrated Resource Planning (IRP) regulations in Kentucky require major utilities to make triennial IRP filings with the KPSC. In April 2011, LG&E and KU filed their 2011 joint IRP with the KPSC. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information. In May 2011, the KPSC issued a procedural schedule and data discovery will continue through the third quarter. Pursuant to a December 2008 Order, KU will file the 2011 joint IRP with the VSCC by September 2011, with certain supplemental information as required by this Order. Impending environmental regulation could result in the retirements of older, smaller coal-fired units and therefore the IRP assumes approximately 800 MW of potential retirements of coal-fired capacity in 2016 and replacement by combined-cycle gas units. In addition, the IRP assumes approximately 500 MW of peak demand reductions by 2017 through existing or expanded DSM or energy efficiency programs. Implementation of the major findings of the IRP is subject to further analysis and decision-making and further regulatory approvals.

Demand-Side Management/Energy Efficiency

In April 2011, LG&E and KU filed a DSM application to expand existing energy efficiency programs and implement new energy efficiency programs. LG&E and KU requested new DSM rates to become effective on May 13, 2011. On May 10, 2011, the KPSC issued an Order suspending the proposed rates for five months until October 12, 2011. On May 20, 2011, the KPSC issued an Order establishing a procedural schedule for discovery and intervenor testimony, but the KPSC did not schedule a hearing in the proceeding.

PPL's Acquisition of LKE

In September 2010, the KPSC approved a settlement agreement among PPL and all of the intervening parties to PPL's joint application to the KPSC for approval of its acquisition of ownership and control of LKE, LG&E and KU. In the settlement agreement, the parties agreed that LG&E and KU would commit that no base rate increases would take effect before January 1, 2013. Under the terms of the settlement, LG&E and KU retain the right to seek KPSC approval for the deferral of "extraordinary and uncontrollable costs," such as significant storm restoration costs, if incurred. Additionally, interim rate adjustments will continue to be permissible during that period for existing recovery mechanisms such as the ECR and DSM.

Virginia Activities *(PPL, LKE and KU)*

Rate Case

In April 2011, KU filed an application with the VSCC requesting an annual increase in electric base rates for its Virginia jurisdictional customers of $9 million, or 14%. The proposed increase reflects a rate of return on rate base of 8%, based on a return on equity of 11%, inclusive of expenditures to complete TC2, all new flue gas desulfurization controls, recovery over five years of a 2009 storm regulatory asset and various other adjustments to revenue and expenses for the test year ended December 31, 2010. While KU cannot predict the amount of the allowed increase, it expects the new rates to go into effect in January 2012.

Levelized Fuel Factor

In February 2011, KU filed an application with the VSCC seeking approval of an increase in its fuel cost factor beginning with service rendered in April 2011. In March 2011, a hearing was held on KU's requested fuel factor and an Order was issued approving a revised fuel factor to be in effect beginning with service rendered on and after April 1, 2011, with recovery of the regulatory asset for prior period under recoveries over a three-year period.

Storm Costs

In December 2009, a major snowstorm hit KU's Virginia service area causing approximately 30,000 customer outages. During the normal 2009 Virginia Annual Information Filing (AIF), KU requested that the VSCC establish a regulatory asset and defer for future recovery $6 million in incremental operation and maintenance expenses related to the storm restoration. In March 2011, the VSCC Staff issued its report on KU's 2009 AIF stating that it considered this storm damage to be extraordinary, non-recurring and material to KU. The Staff Report also recommended establishing a regulatory asset for these costs, with recovery over a five-year period upon approval in the next base rate case. In March 2011, a regulatory asset of $6 million was established for actual costs incurred. In June 2011, the VSCC issued an Order approving the recommendations contained in the Staff Report.

Pennsylvania Activities *(PPL and PPL Electric)*

Act 129

Act 129 requires electric utilities to meet specified goals for reduction in customer electricity usage and peak demand by specified dates. Utilities not meeting the requirements of Act 129 are exposed to significant penalties.

Under Act 129, Electric Distribution Companies (EDCs) must develop and file an energy efficiency and conservation plan (EE&C Plan) with the PUC and contract with conservation service providers to implement all or a portion of the EE&C Plan. Act 129 requires EDCs to cause reduced overall electricity consumption of 1.0% by 2011 and 3.0% by 2013, and reduced peak demand of 4.5% for the 100 hours of highest demand by 2013. To date, PPL Electric has met the 2011 requirement. EDCs will be able to recover the costs (capped at 2% of the EDC's 2006 revenue) of implementing their EE&C Plans. In October 2009, the PUC approved PPL Electric's EE&C Plan. The plan includes 14 programs, all of which are voluntary for customers. The plan includes a proposed rate mechanism for recovery of all costs incurred by PPL Electric to implement the plan. In September 2010, PPL Electric filed its Program Year 1 Annual Report and Process Evaluation Report. PPL Electric also filed a petition requesting permission to modify two components of its EE&C Plan. The PUC issued its Final Order in January 2011, approving the changes proposed by PPL Electric and directing PPL Electric to re-file its plan to reflect all changes made since its initial approval. In February 2011, PPL Electric filed the changes to its plan and in May 2011, the PUC approved those changes.

Act 129 also requires installation of smart meters for new construction, upon the request of consumers at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs will be able to recover the costs of providing smart metering technology. In August 2009, PPL Electric filed its proposed smart meter technology procurement and installation plan with the PUC. All of PPL Electric's metered customers currently have smart meters installed at their service locations, and PPL Electric's current advanced metering technology generally satisfies the requirements of Act 129 and does not need to be replaced. In June 2010, the PUC entered its order approving PPL Electric's smart meter plan with several modifications. In compliance with the Order, in the third quarter of 2010, PPL Electric submitted a revised plan with a cost estimate of $38 million to be incurred over a five-year period, beginning in 2009, and filed a rider to recover these costs beginning January 1, 2011. In December 2010, the PUC approved PPL Electric's rate rider to recover the costs of its smart meter program.

Act 129 also requires the Default Service Provider (DSP) to provide electric generation supply service to customers pursuant to a PUC-approved competitive procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (four to 20 years), with long-term contracts limited to up to 25% of the load unless otherwise approved by the PUC). The DSP will be able to recover the costs associated with a competitive procurement plan.

Under Act 129, the DSP competitive procurement plan must ensure adequate and reliable service "at least cost to customers" over time. Act 129 grants the PUC authority to extend long-term power contracts up to 20 years, if necessary, to achieve the "least cost" standard. The PUC has approved PPL Electric's procurement plan for the period January 1, 2011 through May 31, 2013, and PPL Electric has begun purchasing under that plan. In December 2010, the PUC approved PPL Electric's rate rider to recover the costs of providing default service.

PUC Investigation of Retail Market

In April 2011, the PUC opened an investigation of Pennsylvania's retail electricity market which will be conducted in two phases. Phase one will address the status of the current retail market and explore potential changes. Questions promulgated by the PUC for this phase of the investigation focus primarily on default service issues. In June 2011, interested parties filed comments and the PUC held a hearing in this phase of the investigation. In July 2011, the PUC entered an order initiating phase two of the investigation which will study how best to address issues identified by the PUC as being most relevant to improving the current retail electricity market. It is likely that investigation will not be completed before the end of the year. PPL Electric cannot predict the outcome of the investigation.

Legislation – Regulatory Procedures and Mechanisms

In June 2011, the Pennsylvania House Consumer Affairs Committee approved legislation that would authorize the PUC to approve regulatory procedures and mechanisms to provide for more timely recovery of a utility's costs. Those procedures and mechanisms include, but are not limited to, the use of a fully projected test year and an automatic adjustment clause to recover certain capital costs and related operating expenses. The legislation is now before the full Pennsylvania House of Representatives. PPL Electric is working with other stakeholders to support passage of this legislation.

Federal Matters

FERC Formula Rates

(PPL and PPL Electric)

In May 2010, PPL Electric initiated the 2010 Annual Update of its formula rate. In November 2010, a group of municipal customers taking transmission service in PPL Electric's zone filed a preliminary challenge to the update, and in December 2010 they filed a formal challenge. In January 2011, PPL Electric filed a motion to dismiss a number of the challenges and submitted responses to all of the challenges. The group of municipal customers filed answers to PPL Electric's motion to dismiss and its responses to the formal challenge. PPL Electric cannot predict the outcome of this proceeding which remains pending before the FERC.

International Activities *(PPL)*

U.K. Overhead Electricity Networks

In 2002, for safety reasons, the U.K. Government issued guidance that low voltage overhead electricity networks within three meters horizontal clearance of a building should either be insulated or relocated. This imposed a retroactive requirement on existing assets that were built with lower clearances. In 2008, the U.K. Government determined that the U.K. electricity network should comply with the issued guidance. WPD estimates that the cost of compliance will be approximately $126 million. The projected expenditures in the current regulatory period, April 1, 2010 through March 31, 2015, have been included in allowed revenues, and it is expected that expenditures beyond this five-year period (including WPD Midlands expenditures) will also be included in allowed revenues. The U.K. Government has determined that WPD (South Wales) and WPD Midlands should comply by 2015 and WPD (South West) by 2018.

To improve network reliability, the U.K. Government amended a regulation relating to safety and continuity of supply by adding a new obligation which broadly requires, beginning January 31, 2009, network operators to implement a risk-based program to clear trees away from overhead lines. WPD estimates that the cost of compliance will be approximately $208 million over a 25-year period. The projected expenditures in the current regulatory period have been included in allowed revenues under the current price control review, and it is expected that expenditures beyond this five-year period will also be included in allowed revenues.

In addition to the above, WPD (East Midlands) and WPD (West Midlands) were not in compliance with earlier regulations pertaining to overhead line clearances as of the acquisition date. WPD (East Midlands) and WPD (West Midlands) expect to incur costs through 2015 to comply with these requirements that are not included in allowed revenues under the current price control review. Management is in the process of assessing and quantifying this exposure as a result of the acquisition.

New U.K. Pricing Model

The electricity distribution subsidiaries of PPL WW and PPL WEM operate under distribution licenses and price controls granted and set by Ofgem for each of their distribution subsidiaries. The price control formula that governs allowed revenue is designed to provide economic incentives to minimize operating, capital and financing costs. The price control formula is normally determined every five years. Ofgem completed its review in December 2009 that became effective April 1, 2010 and will continue through March 31, 2015.

In October 2010, Ofgem announced a new pricing model that will be effective for the U.K. electricity distribution sector, beginning April 2015. The model, known as RIIO (Revenues = Incentives + Innovation + Outputs), is intended to encourage investment in regulated infrastructure. Key components of the model are: an extension of the price review period from five to eight years, increased emphasis on outputs and incentives, enhanced stakeholder engagement including network customers, a stronger incentive framework to encourage more efficient investment and innovation, expansion of the current Low Carbon Network Fund to stimulate innovation and continued use of a single weighted average cost of capital.

7 . Financing Activities

Credit Arrangements and Short-term Debt

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Credit facilities are maintained to enhance liquidity and provide credit support, and as a backstop to commercial paper programs, when necessary. The following credit facilities were in place at:

	June 30, 2011					December 31, 2010	
	Expiration Date	Capacity	Borrowed (a)	Letters of Credit Issued	Unused Capacity	Borrowed (a)	Letters of Credit Issued
PPL							
WPD Credit Facilities							
PPL WW Syndicated							
Credit Facility (b)	Jan. 2013	£ 150	£ 113	n/a	£ 37	£ 115	n/a
WPD (South West)							
Syndicated Credit Facility	July 2012	210		n/a	210		n/a
WPD (East Midlands)							
Syndicated Credit Facility (c)	Apr. 2016	300		£ 70	230	n/a	n/a
WPD (West Midlands)							
Syndicated Credit Facility (c)	Apr. 2016	300		71	229	n/a	n/a
Uncommitted Credit Facilities		113		3	110		£ 3
Total WPD Credit Facilities (d)		£ 1,073	£ 113	£ 144	£ 816	£ 115	£ 3
PPL Energy Supply (e)							
Syndicated Credit Facility (f)	Dec. 2014	$ 3,000	$ 250	$ 122	$ 2,628	$ 350	
Letter of Credit Facility	Mar. 2013	200	n/a	55	145	n/a	$ 24
Structured Credit Facility (g)	Mar. 2011	n/a	n/a	n/a	n/a	n/a	161
Total PPL Energy Supply Credit Facilities		$ 3,200	$ 250	$ 177	$ 2,773	$ 350	$ 185

	Expiration Date	Capacity	Borrowed (a)	Letters of Credit Issued	Unused Capacity	Borrowed (a)	Letters of Credit Issued
		June 30, 2011				December 31, 2010	
PPL Electric (e)							
Syndicated Credit Facility	Dec. 2014	$ 200		$ 13	$ 187		$ 13
Asset-backed Credit Facility (h)	July 2011	150		n/a	150		n/a
Total PPL Electric Credit Facilities		$ 350		$ 13	$ 337		$ 13
LG&E (e) (i)							
Syndicated Credit Facility (j)	Dec. 2014	$ 400			$ 400	$ 163	
KU (e) (i)							
Syndicated Credit Facility (j)	Dec. 2014	$ 400			$ 400		$ 198
Letter of Credit Facility (k)	Apr. 2014	198	n/a	$ 198		n/a	n/a
Total KU Credit Facilities		$ 598		$ 198	$ 400		$ 198

(a) Amounts borrowed are recorded as "Short-term debt" on the Balance Sheets.

(b) The borrowing outstanding at June 30, 2011 was a USD-denominated borrowing of $181 million, which equated to £113 million at the time of borrowing and bore interest at approximately 1.07%.

(c) In April 2011, following the completion of the acquisition of WPD Midlands, WPD (East Midlands) and WPD (West Midlands) each entered into a £300 million 5-year syndicated credit facility. Under the facilities, WPD (East Midlands) and WPD (West Midlands) each have the ability to make cash borrowings and to request the lenders to issue up to £80 million of letters of credit in lieu of borrowing. Each company pays customary commitment and utilization fees under its respective facility, and borrowings generally bear interest at LIBOR-based rates plus a spread, depending upon the respective company's senior unsecured long-term debt rating. Each credit facility contains financial covenants that require the respective company to maintain an interest coverage ratio of consolidated earnings before interest, income taxes, depreciation and amortization to interest expense of at least 3.0 to 1 and total net debt not in excess of 85% of its RAV, in each case calculated in accordance with the credit facilities. An aggregate of $7 million in fees were incurred in connection with establishing these facilities.

(d) In June 2011, WPD repaid £84 million of short-term debt (which equated to $138 million at the time of repayment) with proceeds received from the issuance of long-term debt. Although financial information of foreign subsidiaries is recorded on a one-month lag, the repayment of short-term debt is reflected in the financial statements for the quarter ended June 30, 2011. See "Long-term Debt and Equity Securities" below for further discussion.

At June 30, 2011, the unused capacity of the WPD credit facilities was approximately $1.3 billion.

(e) All credit facilities at PPL Energy Supply, PPL Electric, LG&E and KU also apply to PPL on a consolidated basis for financial reporting purposes.

(f) The borrowing outstanding at June 30, 2011 bears interest at 2.44%.

(g) In March 2011, PPL Energy Supply's $300 million Structured Credit Facility expired. PPL Energy Supply's obligations under this facility were supported by a $300 million letter of credit issued on PPL Energy Supply's behalf under a separate but related $300 million 5-year credit agreement, which also expired in March 2011.

(h) PPL Electric participates in an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary has pledged these assets to secure loans from a commercial paper conduit sponsored by a financial institution.

At June 30, 2011 and December 31, 2010, $274 million and $248 million of accounts receivable and $87 million and $134 million of unbilled revenue were pledged by the subsidiary under the credit agreement related to PPL Electric's and the subsidiary's participation in the asset-backed commercial paper program. Based on the accounts receivable and unbilled revenue pledged at June 30, 2011, the amount available for borrowing under the facility was limited to $107 million. PPL Electric's sale to its subsidiary of the accounts receivable and unbilled revenue is an absolute sale of assets, and PPL Electric does not retain an interest in these assets. However, for financial reporting purposes, the subsidiary's financial results are consolidated in PPL Electric's financial statements. PPL Electric performs certain record-keeping and cash collection functions with respect to the assets in return for a servicing fee from the subsidiary.

In July 2011, PPL Electric and the subsidiary extended the expiration date of the credit agreement to July 2012.

(i) All credit facilities at LG&E and KU also apply to LKE on a consolidated basis for financial reporting purposes.

(j) In June 2011, these facilities were amended such that the fees and the spreads to benchmark interest rates for borrowings depend upon the respective company's senior secured long-term debt rating rather than the senior unsecured long-term debt rating.

(k) In April 2011, KU entered into a letter of credit facility that has been used to issue letters of credit to support outstanding tax-exempt bonds. The facility contains a financial covenant requiring KU's debt to total capitalization not to exceed 70%, as calculated in accordance with the credit facility. KU pays customary commitment and letter of credit fees under the new facility.

(PPL and PPL Energy Supply)

PPL Energy Supply maintains a $500 million Facility Agreement expiring June 2017, whereby PPL Energy Supply has the ability to request up to $500 million of committed letter of credit capacity at fees to be agreed upon at the time of each request, based on certain market conditions. At June 30, 2011, PPL Energy Supply had not requested any capacity for the issuance of letters of credit under this arrangement.

PPL Energy Supply, PPL EnergyPlus, PPL Montour and PPL Brunner Island maintain an $800 million secured energy marketing and trading facility, whereby PPL EnergyPlus will receive credit to be applied to satisfy collateral posting obligations related to its energy marketing and trading activities with counterparties participating in the facility. The credit amount is guaranteed by PPL Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities to secure any amount they may owe under their guarantees. The facility expires in November 2015, but is subject to automatic one-year renewals under certain conditions. There were no secured obligations outstanding under this facility at June 30, 2011.

(PPL and PPL Electric)

PPL Electric maintains a commercial paper program for up to $200 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility, which expires in December 2014, based on available capacity. PPL Electric had no commercial paper outstanding at June 30, 2011.

(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

See Note 11 for discussion of intercompany borrowings.

2011 Bridge Facility *(PPL)*

In March 2011, concurrently and in connection with entering into the agreement to acquire WPD Midlands, PPL entered into a commitment letter with certain lenders pursuant to which the lenders committed to provide PPL with 364-day unsecured bridge financing of up to £3.6 billion solely to (i) fund the acquisition and (ii) pay certain fees and expenses in connection with the acquisition. The bridge financing commitment was subsequently syndicated to a group of banks, including the initial commitment lenders. Upon the syndication of the commitment, in March 2011, PPL Capital Funding and PPL WEM, as borrowers, and PPL, as guarantor, entered into the £3.6 billion 2011 Bridge Facility. During the six months ended June 30, 2011, PPL incurred $43 million of fees in connection with establishing the 2011 Bridge Facility, which is reflected in "Interest Expense" on the Statement of Income. Of the total fees incurred, $36 million was recorded in "Interest Expense" on the Statement of Income for the three months ended June 30, 2011.

On April 1, 2011, concurrent with the closing of the WPD Midlands acquisition, PPL Capital Funding borrowed an aggregate of £1.75 billion and PPL WEM borrowed £1.85 billion under the 2011 Bridge Facility. Borrowings bore interest at approximately 2.62%, determined by one-month LIBOR rates plus a spread, based on PPL Capital Funding's senior unsecured debt rating and the length of time from the date of the acquisition closing that borrowings were outstanding. See Note 8 for additional information on the acquisition.

In accordance with the terms of the 2011 Bridge Facility, PPL Capital Funding's borrowings of £1.75 billion were repaid with approximately $2.8 billion of proceeds received from PPL's issuance of common stock and 2011 Equity Units in April 2011, as discussed in "Long-term Debt and Equity Securities" below. In April 2011, PPL WEM repaid £650 million of its 2011 Bridge Facility borrowing. Such repayment was funded primarily with proceeds received from PPL WEM's issuance of senior notes, which is also discussed below. In May 2011, PPL WEM repaid the remaining £1.2 billion of borrowings then-outstanding under the 2011 Bridge Facility, primarily with the proceeds from senior notes issued by WPD (East Midlands) and WPD (West Midlands), as described below.

In anticipation of the repayment of a portion of the borrowings under the 2011 Bridge Facility with U.S. dollar proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of U.S. dollar-denominated senior notes, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. See Note 14 for further discussion.

Long-term Debt and Equity Securities

(PPL)

In connection with the closing of the acquisition of WPD Midlands, PPL assumed, through consolidation, £250 million of Senior Notes due 2040 (2040 Notes) previously issued by WPD (East Midlands), and £250 million of Senior Notes due 2025 (2025 Notes) previously issued by WPD (West Midlands), equating to an aggregate principal amount of approximately $800 million at the time of closing. The interest rates on the notes are subject to adjustment into June 2012 in the event of a rating change on the notes. The 2040 Notes currently bear interest at 5.75%, and the 2025 Notes currently bear interest at 6.00%.

The maximum rate of interest allowable under the adjustment provisions is 6.50% for the 2040 Notes and 6.25% for the 2025 Notes. The notes may be put by the holders back to the respective issuer for redemption if the long-term credit ratings assigned to the notes by Moody's or S&P are withdrawn by either of the rating agencies or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or material adverse change to, the distribution license under which WPD (West Midlands) and WPD (East Midlands) operate.

In April 2011, PPL issued 92 million shares of its common stock at a public offering price of $25.30 per share, for a total of $2.328 billion. Proceeds from the issuance were $2.258 billion, net of the $70 million underwriting discount. PPL also issued 19.55 million 2011 Equity Units at a stated amount per unit of $50.00 for a total of $978 million. Proceeds from the issuance were $948 million, net of the $30 million underwriting discount. PPL used the net proceeds to repay PPL Capital Funding's borrowings under the 2011 Bridge Facility, as discussed above, to pay certain acquisition-related fees and expenses and for general corporate purposes.

Each 2011 Equity Unit consists of a 2011 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in $1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019 (2019 Notes).

Each 2011 Purchase Contract obligates the holder to purchase, and PPL to sell, for $50.00 a number of shares of PPL common stock to be determined by the average VWAP of PPL's common stock for the 20-trading day period ending on the third trading day prior to May 1, 2014, subject to antidilution adjustments and an early settlement upon a Fundamental Change as follows:

- if the average VWAP equals or exceeds approximately $30.99, then 1.6133 shares (a minimum of 31,540,015 shares);
- if the average VWAP is less than approximately $30.99 but greater than $25.30, a number of shares of common stock having a value, based on the average VWAP, equal to $50.00; and
- if the average VWAP is $25.30, then 1.9763 shares (a maximum of 38,636,665 shares).

If holders elect to settle the 2011 Purchase Contract prior to May 1, 2014, they will receive 1.6133 shares of PPL common stock, subject to antidilution adjustments and an early settlement upon a Fundamental Change.

A holder's ownership interest in the 2019 Notes is pledged to PPL to secure the holder's obligation under the related 2011 Purchase Contract. If a holder of a 2011 Purchase Contract chooses at any time no longer to be a holder of the 2019 Notes, such holder's obligation under the 2011 Purchase Contract must be secured by a U.S. Treasury security.

Each 2011 Purchase Contract also requires PPL to make quarterly contract adjustment payments at a rate of 4.43% per year on the $50.00 stated amount of the 2011 Equity Unit. PPL has the option to defer these contract adjustment payments until the 2011 Purchase Contract settlement date. Deferred contract adjustment payments will accrue additional contract adjustment payments at the rate of 8.75% per year until paid. Until any deferred contract adjustment payments have been paid, PPL may not declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, subject to certain exceptions.

The 2019 Notes are fully and unconditionally guaranteed by PPL as to payment of principal and interest. The 2019 Notes initially bear interest at 4.32% and are not subject to redemption prior to May 2016. Beginning May 2016, PPL Capital Funding may, at its option, redeem the 2019 Notes, in whole but not in part, at any time, at par plus accrued and unpaid interest. The 2019 Notes are expected to be remarketed in 2014 into two tranches, such that neither tranche will have an aggregate principal amount of less than the lesser of $250 million and 50% of the aggregate principal amount of the 2019 Notes to be remarketed. One tranche will mature on or about the third anniversary of the settlement of the remarketing, and the other tranche will mature on or about the fifth anniversary of such settlement. Upon a successful remarketing, the interest rate on the 2019 Notes may be reset and the maturity of the tranches may be modified as necessary. In connection with a remarketing, PPL Capital Funding may elect with respect to each tranche, to extend or eliminate the early redemption date and/or calculate interest on the notes of a tranche on a fixed or floating rate basis. If the remarketing fails, holders of the

2019 Notes will have the right to put their notes to PPL Capital Funding on May 1, 2014 for an amount equal to the principal amount plus accrued interest.

Prior to May 2016, PPL Capital Funding may elect at one or more times to defer interest payments on the 2019 Notes for one or more consecutive interest periods until the earlier of the third anniversary of the interest payment due date and May 2016. Deferred interest payments will accrue additional interest at a rate equal to the interest rate then applicable to the 2019 Notes. Until any deferred interest payments have been paid, PPL may not, subject to certain exceptions, (i) declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, (ii) make any payment of principal of, or interest or premium, if any, on, or repay, purchase or redeem any of its debt securities that upon its liquidation ranks equal with, or junior in interest to, the subordinated guarantee of the 2019 Notes by PPL as of the date of issuance and (iii) make any payments regarding any guarantee by PPL of securities of any of its subsidiaries (other than PPL Capital Funding) if the guarantee ranks equal with, or junior in interest to, the 2019 Notes as of the date of their issuance.

In the financial statements, the proceeds from the sale of the 2011 Equity Units were allocated to the 2019 Notes and the 2011 Purchase Contracts, including the obligation to make contract adjustment payments, based on the underlying fair value of each instrument at the time of issuance. As a result, the 2019 Notes were recorded at $978 million, which approximated fair value, as long-term debt. At the time of issuance, the present value of the contract adjustment payments of $123 million was recorded to other liabilities representing the obligation to make contract adjustment payments, with an offsetting reduction to additional paid-in capital for the issuance of the 2011 Purchase Contracts, which approximated the fair value of each. The liability is being accreted through interest expense over the three-year term of the 2011 Purchase Contracts. The initial valuation of the contract adjustment payments is considered a non-cash transaction that is excluded from the Statement of Cash Flows in 2011. Costs to issue the 2011 Equity Units were primarily allocated on a relative cost basis, resulting in $25 million being recorded to "Additional paid-in capital" and $5 million being recorded to "Other noncurrent assets". See Note 4 for EPS considerations related to the 2011 Purchase Contracts.

Also in April 2011, PPL WEM issued $460 million of 3.90% Senior Notes due 2016 (2016 Notes) and $500 million of 5.375% Senior Notes due 2021 (2021 Notes). The 2016 Notes may be redeemed any time prior to maturity at PPL WEM's option at make-whole redemption prices. The 2021 Notes may be redeemed at PPL WEM's option at make-whole redemption prices until the date three months prior to maturity and at par thereafter. PPL WEM received proceeds of $953 million, net of discounts and underwriting fees, from the combined issuance of the notes. The net proceeds were used to repay a portion of PPL WEM's borrowing under the 2011 Bridge Facility as discussed above. In connection with the issuance of the senior notes, PPL WEM, through PPL, entered into cross currency interest rate swaps for the entire aggregate principal amount of each series of notes in order to hedge PPL WEM's risk of variability in the GBP functional currency equivalent cash flows related to its U.S. dollar interest and principal payments on the notes.

In May 2011, WPD (West Midlands) issued £800 million of 5.75% Senior Notes due 2032 (2032 Notes) and WPD (East Midlands) issued £600 million of 5.25% Senior Notes due 2023 (2023 Notes). WPD (West Midlands) and WPD (East Midlands) collectively received proceeds of £1.4 billion, which equated to $2.2 billion at the time of issuance, net of discounts and underwriting fees, from the combined debt issuances. A portion of the net proceeds were dividended to PPL WEM and used to repay the remaining balance of PPL WEM's borrowing under the 2011 Bridge Facility in May 2011 as discussed above. The balance of the net proceeds have been or will be used to pre-fund certain capital expenditures and for other general corporate purposes.

The 2032 Notes and the 2023 Notes may be put by the holders back to the respective issuer for redemption if the long-term credit ratings assigned to the notes by Moody's or S&P are withdrawn by either of the rating agencies or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or material adverse change to, the distribution license under which WPD (West Midlands) and WPD (East Midlands) operate.

In June 2011, WPD (East Midlands) issued £100 million of Index-Linked Notes due 2043 (2043 Notes). The principal amount of the 2043 Notes is adjusted on a semi-annual basis based on changes in a specified index, as detailed in the terms of the notes. WPD (East Midlands) received proceeds of £99 million, which equated to $163 million at the time of issuance, net of discounts and underwriting fees, from the issuance of the 2043 Notes. As discussed below, the majority of the net proceeds were used to repay certain short-term debt.

The 2043 Notes may be put by the holders back to WPD (East Midlands) for redemption if the long-term credit ratings assigned to the notes by Moody's or S&P are withdrawn by either of the rating agencies or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or material adverse change to, the distribution license under which WPD (East Midlands) operates.

Although financial information of foreign subsidiaries is recorded on a one-month lag, the June 2011 issuance of the 2043 Notes, and the related repayment of £84 million of short-term debt (which equated to $138 million at the time of repayment), are reflected in the financial statements for the quarter ended June 30, 2011 due to the materiality of the issuance of the 2043 Notes.

(PPL and PPL Energy Supply)

In July 2011, PPL Energy Supply redeemed at par the entire $250 million aggregate principal amount of its 7.00% Senior Notes due 2046.

(PPL and PPL Electric)

In July 2011, PPL Electric issued $250 million of 5.20% First Mortgage Bonds due 2041. The bonds may be redeemed at PPL Electric's option at make-whole redemption prices until the date six months prior to maturity and at par thereafter. PPL Electric received proceeds of $246 million, net of discounts and underwriting fees. The net proceeds will be used for capital expenditures and other general corporate purposes.

Also in July 2011, PPL Electric redeemed the entire $400 million aggregate principal amount of its 7.125% Senior Secured Bonds due 2013 for $458 million, plus accrued interest.

(PPL, LKE, LG&E and KU)

In April 2011, LKE, LG&E and KU each filed a 2011 Registration Statement with the SEC, as agreed in registration rights agreements entered into in connection with the issuances of senior notes (in the case of LKE) and first mortgage bonds (in the case of LG&E and KU) in November 2010 in transactions not registered under the Securities Act of 1933. See Note 7 in PPL's 2010 Form 10-K for additional information on the original debt issuances. The 2011 Registration Statements relate to offers to exchange either the senior notes or first mortgage bonds issued in November 2010 with similar but registered securities. The 2011 Registration Statements became effective in June 2011, and the exchanges were completed in July 2011, with substantially all of LKE's senior notes and LG&E's and KU's first mortgage bonds being exchanged.

(PPL, LKE and LG&E)

In January 2011, LG&E remarketed $163 million of variable rate tax-exempt revenue bonds, which were issued on its behalf by Louisville/Jefferson County, Kentucky, to unaffiliated investors in a term rate mode, bearing interest at 1.90% into 2012. At December 31, 2010, such bonds were held by LG&E and reflected as "Short-term investments" on the Balance Sheet. The proceeds from the remarketing were used to repay a $163 million borrowing under LG&E's syndicated credit facility.

Legal Separateness

(PPL, PPL Energy Supply, PPL Electric and LKE)

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay the creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Energy Supply, PPL Electric and LKE are each separate legal entities. These subsidiaries are not liable for the debts of PPL Energy Supply, PPL Electric and LKE. Accordingly, creditors of PPL Energy Supply, PPL Electric and LKE may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL Energy Supply, PPL Electric and LKE are not liable for the debts of their subsidiaries, nor are their subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Energy Supply, PPL Electric and LKE (or their other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

Distributions and Capital Contributions

(PPL)

In May 2011, PPL declared its quarterly common stock dividend, payable July 1, 2011, at 35.0 cents per share (equivalent to $1.40 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

During the six months ended June 30, 2011 the following distributions and capital contributions occurred:

	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Dividends/distributions paid to parent	$ 134 (a)	$ 52	$ 146	$ 42	$ 68
Capital contributions received from parent	168				

(a) In addition to the cash distributions paid, in January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent company, PPL Energy Funding. See Note 8 for additional information.

8 . Acquisitions, Development and Divestitures

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL continuously evaluates potential acquisitions, divestitures and development projects as opportunities arise or are identified. Development projects are continuously reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. Any resulting transactions may impact future financial results. See below for information on PPL's acquisitions of WPD Midlands and LKE, PPL Energy Supply's distribution of its membership interest in PPL Global to its parent, PPL Energy Funding that was presented as discontinued operations by PPL Energy Supply and the sales of businesses that were presented as discontinued operations by PPL and PPL Energy Supply.

Acquisitions

Acquisition of WPD Midlands *(PPL)*

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands), from subsidiaries of E.ON AG. The consideration for the acquisition consisted of cash of $5.8 billion, including the repayment of $1.7 billion of affiliate indebtedness owed to subsidiaries of E.ON AG, and approximately $800 million of long-term debt assumed through consolidation. WPD Midlands' regulated distribution operations serve five million end users in the Midlands area of England. The acquisition continues to reapportion the mix of PPL's regulated and competitive businesses by increasing the regulated portion of its business and enhances rate-regulated growth opportunities as the regulated businesses make investments to improve infrastructure and customer reliability. Further, the service territories of WPD (South Wales), WPD (South West) and WPD Midlands are contiguous and cost savings, efficiencies and other benefits are expected from the combined operations.

The fair value of the consideration paid for Central Networks was as follows (in billions):

Aggregate enterprise consideration	$ 6.6
Less: fair value of long-term debt outstanding assumed through consolidation	0.8
Total cash consideration paid	5.8
Less: funds made available to Central Networks to repay pre-acquisition affiliate indebtedness	1.7
Cash consideration paid for Central Networks' outstanding ordinary share capital	$ 4.1

The total cash consideration paid was primarily funded by borrowings under the 2011 Bridge Facility on the date of acquisition. Subsequently, PPL repaid the borrowings under the 2011 Bridge Facility using proceeds from the permanent financing, including April 2011 issuances of common stock and 2011 Equity Units, and proceeds from the issuance of debt by PPL WEM, WPD (East Midlands) and WPD (West Midlands) in the second quarter of 2011. See Note 7 for additional information on the 2011 Bridge Facility and permanent financing.

Preliminary Purchase Price Allocation

The following table summarizes (in billions) the preliminary allocation of the purchase price to the fair value of the major classes of assets acquired and liabilities assumed.

Current assets (a)	$	0.3
PP&E		4.9
Intangible assets (b)		0.1
Other noncurrent assets		0.1
Current liabilities (c)		(0.6)
PPL WEM affiliate indebtedness		(1.7)
Long-term debt (current and noncurrent) (c)		(0.8)
Other noncurrent liabilities (c)		(0.5)
Net identifiable assets acquired		1.8
Goodwill		2.3
Net assets acquired	$	4.1

(a) Includes gross contractual amount of the accounts receivable acquired of $119 million, which approximates fair value.
(b) Intangible assets recorded include $88 million of easements, which have an indefinite life, and $11 million of customer contracts, which have a weighted-average amortization period of 10 years.
(c) Represents non-cash activity excluded from the Statement of Cash Flows for the six months ended June 30, 2011.

The purchase price allocation is preliminary and could change materially in subsequent periods. Any changes to the purchase price allocation during the measurement period that result in material changes to the consolidated financial results will be adjusted retrospectively. The measurement period can extend up to one year from the date of acquisition, but PPL expects to complete the purchase price allocation before the end of 2011. The items pending finalization include, but are not limited to, the valuation of PP&E, intangible assets, defined benefit plans, certain liabilities, goodwill and income tax-related matters.

The preliminary purchase price allocation resulted in goodwill of $2.3 billion that was assigned to the International Regulated segment. This reflects the expected continued growth of a rate-regulated business with a defined service territory operating under a constructive regulatory framework, expected cost savings, efficiencies and other benefits resulting from contiguous service territories with WPD (South West) and WPD (South Wales) and the ability to leverage WPD (South West)'s and WPD (South Wales)'s existing management team's high level of performance both in capital cost efficiency and customer service. The goodwill is not expected to be deductible for income tax purposes. No deferred taxes were recorded related to goodwill.

Separation Benefit – International Regulated Segment

In connection with the acquisition of WPD Midlands, PPL has initiated a reorganization designed to transition the WPD Midlands companies to the same operating structure as WPD (South West) and WPD (South Wales). The reorganization, which is expected to be completed in early 2012, is intended to transition WPD Midlands from a functional structure to a regional structure that will require a smaller combined support structure, reduce duplication and implement more efficient procedures.

In June 2011, WPD published its new organizational structure and the job positions that will comprise WPD Midlands. It is currently estimated that approximately 600 to 800 employees of WPD Midlands will leave the companies as a result of the reorganization. The actual number of employees that leave will depend, in part, on the number of people who accept positions they are offered and on the number who elect voluntarily to accept severance compensation.

The categories of separation costs to be associated with the reorganization are severance compensation, early retirement deficiency costs associated with the applicable pension plans, outplacement services and other legal and administrative expenses. Other than the cost for outplacement services, there is considerable uncertainty in estimating the range of costs that will ultimately be incurred, as the amount of each of those cost categories will depend on the number of persons leaving the company, their current compensation level, years of service, age and the terms of the applicable pension plan in which they participate. As a result, a range of the total separation costs associated with the reorganization cannot be reasonably estimated at this time; however, separation costs are not expected to exceed $140 million. Such separation costs will be recognized primarily in the third and fourth quarters of 2011.

In addition, during the second quarter of 2011, WPD recognized $6 million of separation costs associated with the dismissal of eight senior executives of WPD Midlands, which is included in "Other operation and maintenance" on the Statement of Income. Of these costs, $2 million relates to early retirement deficiency costs payable under applicable pension plans and $4 million relates to severance compensation.

Pro forma Information

The actual WPD Midlands operating revenues and net income (which are recorded on a one-month lag) included in PPL's Statements of Income for both the three and six months ended June 30, 2011 were $207 million and $7 million, representing two months of activity since the date of acquisition. The net income included in the International Regulated segment associated with the acquisition of WPD Midlands, excluding nonrecurring acquisition-related adjustments for the three and six months ended June 30, 2011 was $57 million.

The pro forma operating revenues and net income attributable to PPL for the periods ended June 30, which includes LKE as if the acquisition had occurred January 1, 2009 and WPD Midlands as if the acquisition had occurred January 1, 2010, are as follows.

	Three Months		Six Months	
	2011	**2010**	**2011**	**2010**
Operating Revenues - PPL consolidated pro forma	$ 2,570	$ 2,324	$ 5,772	$ 6,351
Net Income (Loss) Attributable to PPL - PPL consolidated pro forma	319	172	820	554

The pro forma financial information presented above has been derived from the historical consolidated financial statements of PPL and LKE, which was acquired on November 1, 2010, and from the historical combined financial statements of WPD Midlands. Income (loss) from discontinued operations (net of income taxes) of $(1) million and $2 million for the three and six months ended June 30, 2011 and $8 million and $13 million for the three and six months ended June 30, 2010 was excluded from the pro forma amounts above.

The pro forma adjustments include adjustments to depreciation, net periodic pension costs, interest expense, nonrecurring adjustments and the related income tax effects. Nonrecurring adjustments include the following credits (expenses):

	Income Statement Line Item	Three Months		Six Months	
		2011	**2010**	**2011**	**2010**
WPD Midlands acquisition					
2011 Bridge facility costs	Interest Expense	$ (36)		$ (43)	
Foreign currency loss on 2011 Bridge Facility	Other Income (Expense) - net	(58)		(58)	
Net hedge gains associated with the 2011 Bridge Facility	Other Income (Expense) - net	63		56	
Hedge ineffectiveness	Interest Expense	(12)		(12)	
U.K. stamp duty tax	Other Income (Expense) - net	(21)		(21)	
Other acquisition-related costs	(a)	(42)		(52)	
LKE acquisition					
2010 Bridge facility costs	Interest Expense		$ (22)		$ (22)
Other acquisition-related costs	Other Income (Expense) - net		(7)		(7)

(a) Primarily includes advisory, accounting and legal fees recorded in "Other Income (Expense) - net" and the separation costs recognized during the second quarter of 2011 as noted above, recorded in "Other operation and maintenance" on the Statements of Income.

Acquisition of LKE *(PPL, LKE, LG&E and KU)*

See Notes 1 and 10 in PPL's 2010 Form 10-K and Note 2 in the annual financial statements included in the 2011 Registration Statements (in the case of LKE, LG&E and KU) for information on PPL's November 2010 acquisition of LKE.

Development

(PPL, LKE, LG&E and KU)

In January 2011, LKE began dispatching electricity from TC2 to meet customer demand. See Note 10 in this Form 10-Q, Notes 8 and 15 in PPL's 2010 Form 10-K and Note 13 in the annual financial statements included in the 2011 Registration Statements (in the case of LKE, LG&E and KU) for additional information.

(PPL and PPL Energy Supply)

The NRC continues to review the COLA submitted by a PPL Energy Supply subsidiary for the proposed Bell Bend nuclear generating unit to be built adjacent to the Susquehanna plant. PPL has made no decision to proceed with construction of Bell Bend and expects that such decision will not be made for several years given the anticipated lengthy NRC license approval process. Additionally, PPL has announced that it does not expect to proceed with construction absent favorable economics, a joint arrangement with other interested parties and a federal loan guarantee or other acceptable financing. PPL and its subsidiaries are currently authorized by PPL's Board of Directors to spend up to $144 million on the COLA and other permitting costs (including land costs) necessary for construction. At June 30, 2011 and December 31, 2010, $119 million and $109 million of costs associated with the licensing application were capitalized and are included on the Balance Sheets in noncurrent "Other intangibles." PPL believes it is probable that these costs are ultimately recoverable following NRC approval of the COLA either through construction of the new nuclear unit, transfer of the COLA rights to a joint venture, or sale of the COLA rights to another party. The PPL Energy Supply subsidiary remains active in the DOE Federal loan guarantee application process. See Note 8 in PPL's 2010 Form 10-K and Note 5 in PPL Energy Supply's Form 8-K dated June 24, 2011 for additional information.

(PPL and PPL Electric)

PPL Electric anticipates that delays in obtaining necessary National Park Service approvals for the Susquehanna-Roseland transmission line will delay its in-service date to 2014 or later. In the first quarter of 2011, PJM issued an updated assessment of the new line within its 2010 Regional Transmission Expansion Plan, which confirms that the line is needed by 2012 to prevent overloads on other power lines in the region. PJM has developed a strategy to manage potential reliability problems until the line is built. PPL Electric cannot predict what additional actions, if any, PJM might take in the event of a continued delay to its scheduled in-service date for the new line. See Note 8 in each Registrant's 2010 Form 10-K for additional information.

Discontinued Operations

(PPL and PPL Energy Supply)

Sale of Certain Non-core Generation Facilities

In March 2011, PPL Energy Supply subsidiaries completed the sale of their ownership interests in certain non-core generation facilities, which were included in the Supply segment, for $381 million. The transaction included the natural gas-fired facilities in Wallingford, Connecticut and University Park, Illinois and an equity interest in Safe Harbor Water Power Corporation, which owns a hydroelectric facility in Conestoga, Pennsylvania. In connection with the completion of the sale, PPL Energy Supply recorded insignificant losses in the first and second quarters of 2011. See Note 9 in PPL's 2010 Form 10-K and Note 6 in PPL Energy Supply's Form 8-K dated June 24, 2011 for additional information, including after-tax impairment charges totaling $64 million recorded in the third and fourth quarters of 2010.

Following are the components of Discontinued Operations in the Statements of Income for the periods ended June 30.

	Three Months		Six Months	
	2011	2010	2011	2010
Operating revenues		$ 29	$ 19	$ 57
Operating expenses	$ 2	17	11	29
Operating income	(2)	12	8	28
Other income (expense) - net		1		1
Interest expense (a)		1	3	3
Income before income taxes	(2)	12	5	26
Income tax expense	(1)	5	3	11
Income (Loss) from Discontinued Operations	$ (1)	$ 7	$ 2	$ 15

(a) Represents allocated interest expense based upon debt attributable to the generation facilities sold.

Upon completion of the sale, assets primarily consisting of $357 million of PP&E and a $14 million equity method investment, which were classified as held for sale at December 31, 2010, were removed from the Balance Sheet.

Sale of Long Island Generation Business

In February 2010, PPL Energy Supply subsidiaries completed the sale of the Long Island generation business, which was included in the Supply segment. The definitive sales agreement included provisions that reduced the $135 million purchase price monthly, commencing September 1, 2009. After adjusting for these price-reduction provisions, proceeds from the sale approximated $124 million. There was no significant impact on earnings in the six months ended June 30, 2010 from the operation of this business or as a result of this sale.

Distribution of Membership Interest in PPL Global to Parent *(PPL Energy Supply)*

In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global, which represented the entire International Regulated segment, to PPL Energy Supply's parent, PPL Energy Funding. The distribution was made based on the book value of the assets and liabilities of PPL Global with financial effect as of January 1, 2011, and no gains or losses were recognized on the distribution. The purpose of the distribution was to better align PPL's organizational structure with the manner in which it manages these businesses, separating the U.S.-based competitive energy marketing and supply business from the U.K.-based regulated electricity distribution business. Following the distribution, PPL Energy Supply operates in a single business segment, and through its subsidiaries is primarily engaged in the generation and marketing of power, primarily in the northeastern and northwestern U.S.

Following are the components of Discontinued Operations in the Statement of Income for the periods ended June 30, 2010.

	Three Months	Six Months
Operating revenues	$ 178	$ 391
Operating expenses	85	176
Operating income	93	215
Other income (expense) - net	1	2
Interest expense (a)	33	64
Income before income taxes	61	153
Income tax expense	8	32
Income (Loss) from Discontinued Operations	$ 53	$ 121

(a) No interest was allocated, as PPL Global is sufficiently capitalized.

In connection with the distribution, the following assets and liabilities were removed from PPL Energy Supply's Balance Sheet in the first quarter of 2011. Except for "Cash and cash equivalents," which has been reflected as a financing activity, the remaining distribution represents a non-cash transaction excluded from PPL Energy Supply's Statement of Cash Flows for the six months ended June 30, 2011.

Cash and cash equivalents	$ 325
Accounts receivable	46
Unbilled revenues	70
Other current assets	21
PP&E, net	3,502
Goodwill	679
Other intangibles	80
Other noncurrent assets	77
Total Assets	4,800
Short-term debt	181
Accounts payable	86
Accrued interest	71
Other current liabilities	112
Long-term debt	2,313
Deferred income tax liabilities - noncurrent	399
Accrued pension obligations	320
Other deferred credits and noncurrent liabilities	30
Total Liabilities	3,512
Net assets distributed	$ 1,288

9 . Defined Benefits

(PPL, PPL Energy Supply, LKE and LG&E)

Net periodic defined benefit costs (credits) of the plans sponsored by the registrants for the periods ended June 30 were:

	Pension Benefits							
	Three Months				Six Months			
	U.S.		U.K.		U.S.		U.K.	
	2011	2010	2011	2010	2011	2010	2011	2010
PPL								
Service cost	$ 23	$ 15	$ 12	$ 4	$ 47	$ 30	$ 17	$ 9
Interest cost	54	37	73	36	109	74	112	75
Expected return on plan assets	(61)	(44)	(88)	(49)	(123)	(88)	(140)	(99)
Amortization of:								
Prior service cost	6	5	1	1	12	10	2	2
Actuarial (gain) loss	8	1	15	12	14	2	29	24
Net periodic defined benefit costs (credits) prior to termination benefits	30	14	13	4	59	28	20	11
Termination benefits			2				2	
Net periodic defined benefit costs (credits)	$ 30	$ 14	$ 15	$ 4	$ 59	$ 28	$ 22	$ 11
PPL Energy Supply								
Service cost	$ 1	$ 1		$ 4	$ 2	$ 2		$ 9
Interest cost	2	1		36	4	3		75
Expected return on plan assets	(2)	(1)		(49)	(4)	(3)		(99)
Amortization of:								
Prior service cost				1				2
Actuarial (gain) loss	1			12	1	1		24
Net periodic defined benefit costs (credits)	$ 2	$ 1		$ 4	$ 3	$ 3		$ 11

	Pension Benefits			
	Three Months		Six Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
LKE				
Service cost	$ 6	$ 5	$ 12	$ 10
Interest cost	17	16	34	32
Expected return on plan assets	(16)	(14)	(32)	(27)
Amortization of:				
Prior service cost	1	2	2	4
Actuarial (gain) loss	6	5	11	10
Net periodic defined benefit costs (credits)	$ 14	$ 14	$ 27	$ 29
LG&E				
Service cost	$ 1	$ 1	$ 1	$ 1
Interest cost	3	3	7	7
Expected return on plan assets	(5)	(4)	(9)	(8)
Amortization of:				
Prior service cost	1		1	1
Actuarial (gain) loss	3	2	6	4
Net periodic defined benefit costs (credits)	$ 3	$ 2	$ 6	$ 5

	Other Postretirement Benefits			
	Three Months		Six Months	
	2011	2010	2011	2010
PPL				
Service cost	$ 3	$ 2	$ 6	$ 4
Interest cost	8	7	16	14
Expected return on plan assets	(5)	(5)	(11)	(10)
Amortization of:				
Transition obligation	1	2	1	4
Prior service cost		2		4
Actuarial cost	1	1	3	2
Net periodic defined benefit costs (credits)	$ 8	$ 9	$ 15	$ 18

	Other Postretirement Benefits			
	Three Months		Six Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
LKE				
Service cost	$ 1	$ 1	$ 2	$ 2
Interest cost	2	2	5	5
Expected return on plan assets	(1)		(2)	(1)
Amortization of:				
Transition obligation	1		1	
Prior service cost			1	1
Net periodic defined benefit costs (credits)	$ 3	$ 3	$ 7	$ 7

(PPL Energy Supply)

See Note 8 for information on PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, which included associated accrued pension obligations.

(PPL Energy Supply and PPL Electric)

In addition to the specific plans it sponsors, PPL Energy Supply and its subsidiaries are also allocated costs of defined benefit plans sponsored by PPL Services, based on their participation in those plans, which management believes are reasonable. PPL Electric does not directly sponsor any defined benefit plans. PPL Electric was allocated costs of defined benefit plans sponsored by PPL Services, based on its participation in those plans, which management believes are reasonable. PPL Services allocated the following net periodic benefit costs to PPL Energy Supply and PPL Electric, including amounts applied to accounts that are further distributed between capital and expense for the periods ended June 30.

	Three Months		Six Months	
	2011	2010	2011	2010
PPL Energy Supply	$ 8	$ 9	$ 15	$ 18
PPL Electric	6	7	12	14

(LG&E and KU)

In addition to the specific plan it sponsors, LG&E is also allocated costs of defined benefit plans sponsored by LKE, based on its participation in those plans, which management believes are reasonable. KU does not directly sponsor any defined benefit plans. KU is allocated costs of defined benefit plans sponsored by LKE, based on its participation in those plans, which management believes are reasonable. LKE allocated the following net periodic benefit costs to LG&E and KU, including amounts applied to accounts that are further distributed between capital and expense for the periods ended June 30.

	Three Months		Six Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
LG&E	$ 6	$ 5	$ 12	$ 11
KU	9	8	18	17

Expected Cash Flows - U.K. Pension Plans

(PPL)

During 2011, WPD updated its expected pension contributions for 2011 to $ 111 million from the $15 million expected contributions disclosed in PPL's 2010 Form 10-K. The updated contributions reflect $ 27 million of contributions required to fund the acquired WPD Midlands' plan and $69 million of increased PPL WW contributions to prepay future contribution requirements to fund pension plan deficits. As of June 30, 2011, WPD had contributed $ 91 million to its plans.

Health Care Reform *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

In March 2010, Health Care Reform was signed into law. Many provisions of Health Care Reform do not take effect for an extended period of time, and most will require the publication of implementing regulations and/or issuance of program guidelines.

Beginning in 2013, provisions within Health Care Reform eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, in the first quarter of 2010, PPL and its subsidiaries took the following actions and will continue to monitor the potential impact of any changes to the existing provisions and implementation guidance related to Health Care Reform on their benefit programs.

(PPL, PPL Energy Supply, PPL Electric)

- PPL decreased deferred tax assets by $13 million, increased regulatory assets by $9 million, increased deferred tax liabilities by $4 million and recorded income tax expense of $8 million;
- PPL Energy Supply decreased deferred tax assets by $5 million and recorded income tax expense of $5 million; and
- PPL Electric decreased deferred tax assets by $5 million, increased regulatory assets by $9 million and increased deferred tax liabilities by $4 million.

(LKE, LG&E and KU)

- LKE and KU recorded insignificant amounts as a result of this enactment. LG&E was not impacted.

10 . Commitments and Contingencies

Energy Purchase Commitments

(PPL, LKE, LG&E and KU)

Pursuant to a power purchase agreement with OVEC, extended in February 2011 to 2040, pending KPSC and VSCC approvals, LG&E and KU are conditionally responsible for their pro-rata share of certain obligations of OVEC under defined circumstances. These contingent liabilities may include unpaid OVEC indebtedness as well as shortfall amounts in certain excess decommissioning costs and other post-employment benefit costs. LKE's contingent proportionate share of OVEC's outstanding debt was $111 million at June 30, 2011, consisting of LG&E's share of $77 million and KU's share of $34 million.

(PPL and PPL Electric)

In 2009, the PUC approved PPL Electric's procurement plan for the period January 2011 through May 2013. Through July 2011, PPL Electric has conducted eight of its 14 planned competitive solicitations. The solicitations include a mix of long-term and short-term purchases ranging from five months to ten years to fulfill PPL Electric's obligation to provide for customer supply as a PLR. See Note 6 for a discussion of the default service supply procurement provisions of Act 129.

Legal Matters

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business.

(PPL, LKE, LG&E and KU)

Trimble County Unit 2 Construction

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 turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price. During 2009 and 2010, LG&E and KU received several contractual notices from the TC2 construction contractor asserting historical force majeure and excusable event claims for a number of adjustments to the contract price, construction schedule, commercial operations date, liquidated damages or other relevant provisions. In September 2010, LG&E, KU and the construction contractor agreed to a settlement to resolve the force majeure and excusable event claims occurring through July 2010, under the TC2 construction contract, which settlement provided for a limited, negotiated extension of the contractual commercial operations date and/or relief from liquidated damage calculations. With limited exceptions, LG&E and KU took care, custody and control of TC2 in January 2011. LG&E and KU and the contractor have agreed to certain amendments to the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. The remaining issues are still under discussion with the contractor. PPL, LKE, LG&E and KU cannot currently predict the outcome of this matter or the potential impact on the capital costs of this project.

Trimble County Unit 2 Transmission

LG&E's and KU's Certificate of Public Convenience and Necessity (CCN) and condemnation rights relating to a transmission line associated with the TC2 construction have been challenged by certain property owners in Hardin County, Kentucky. Certain proceedings relating to CCN challenges and federal historic preservation permit requirements have concluded with outcomes in LG&E's and KU's favor. With respect to the remaining issues in dispute, during 2008 KU obtained various successful rulings at the Hardin County Circuit Court confirming its condemnation rights. In August 2008, several landowners appealed such rulings to the Kentucky Court of Appeals. In May 2010, the Kentucky Court of Appeals issued an Order affirming the Hardin Circuit Court's finding that KU had the right to condemn easements on the properties. In May 2010, the landowners filed a petition for reconsideration with the Kentucky Court of Appeals. In July 2010, the Kentucky Court of Appeals denied that petition. In August 2010, the landowners filed for discretionary review of that denial by the Kentucky Supreme Court. In March 2011, the Kentucky Supreme Court issued an order declining the discretionary review request, thus closing this matter.

Argentina Matters *(LKE, LG&E and KU)*

In connection with an administrative proceeding alleging a violation by a former Argentine subsidiary under that country's 2002-2003 emergency currency exchange laws, claims were brought against the subsidiary's then directors, including two individuals who are executive officers of LKE, in a specialized Argentine financial criminal court. Under applicable Argentine laws, directors of a local company may be liable for monetary penalties for a subject company's violations of the currency laws. In February 2011, the Argentine court issued an order acquitting the former subsidiary and its directors of all claims, which order has become final.

(PPL and PPL Energy Supply)

Spent Nuclear Fuel Litigation

Federal law requires the U.S. government to provide for the permanent disposal of commercial spent nuclear fuel, but there is no definitive date by which a repository will be operational. As a result, it was necessary to expand Susquehanna's on-site spent fuel storage capacity. To support this expansion, PPL Susquehanna contracted for the design and construction of a spent fuel storage facility employing dry cask fuel storage technology. The facility is modular, so that additional storage capacity can be added as needed. The facility began receiving spent nuclear fuel in 1999. PPL Susquehanna estimates that there is sufficient storage capacity in the spent nuclear fuel pools and the on-site dry cask storage facility at Susquehanna to accommodate spent fuel discharged through approximately 2017 under current operating conditions. If necessary, on-site dry cask storage capability can be expanded, assuming appropriate regulatory approvals are obtained, such that, together, the spent fuel pools and the expanded dry fuel storage facilities will accommodate all of the spent fuel expected to be discharged through the current licensed life of each unit, 2042 for Unit 1 and 2044 for Unit 2.

In 1996, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court) ruled that the Nuclear Waste Policy Act imposed on the DOE an unconditional obligation to begin accepting spent nuclear fuel on or before January 31, 1998. In 1997, the D.C. Circuit Court ruled that the contracts between the utilities and the DOE provide a potentially adequate remedy if the DOE failed to begin accepting spent nuclear fuel by January 31, 1998. The DOE did not, in fact, begin to accept spent nuclear fuel by that date. The DOE continues to contest claims that its breach of contract resulted in recoverable damages. In January 2004, PPL Susquehanna filed suit in the U.S. Court of Federal Claims for unspecified damages suffered as a result of the DOE's breach of its contract to accept and dispose of spent nuclear fuel. In May 2011, the parties entered into a settlement agreement which resolved all claims of PPL Susquehanna through December 2013. Under the settlement agreement, PPL Susquehanna received approximately $ 50 million for its share of claims to recover costs to store spent nuclear fuel at the Susquehanna station through September 30, 2009, and will be eligible to receive payment of annual claims for allowed costs, as set forth in the settlement agreement, that are incurred thereafter through the December 31, 2013 termination date of the settlement agreement. In exchange, PPL Susquehanna has waived any claims against the United States government for costs paid or injuries sustained related to storing spent nuclear fuel at PPL Susquehanna through December 31, 2013.

Montana Hydroelectric Litigation

In November 2004, PPL Montana, Avista Corporation (Avista) and PacifiCorp commenced an action for declaratory judgment in Montana First Judicial District Court seeking a determination that no lease payments or other compensation for their hydroelectric facilities' use and occupancy of certain riverbeds in Montana can be collected by the State of Montana. This lawsuit followed dismissal on jurisdictional grounds of an earlier federal lawsuit seeking such compensation in the U.S. District Court of Montana. The federal lawsuit alleged that the beds of Montana's navigable rivers became state-owned trust property upon Montana's admission to statehood, and that the use of them should, under a 1931 regulatory scheme enacted after all but one of the hydroelectric facilities in question were constructed, trigger lease payments for use of land beneath. In July 2006, the Montana state court approved a stipulation by the State of Montana that it was not seeking compensation for the period prior to PPL Montana's December 1999 acquisition of the hydroelectric facilities.

Following a number of adverse trial court rulings, in 2007 Pacificorp and Avista each entered into settlement agreements with the State of Montana providing, in pertinent part, that each company would make prospective lease payments for use of the State's navigable riverbeds (subject to certain future adjustments), resolving the State's claims for past and future compensation.

Following an October 2007 trial of this matter on damages, in June 2008, the Montana District Court awarded the State retroactive compensation of approximately $35 million for the 2000-2006 period and approximately $6 million for 2007 compensation. Those unpaid amounts continue to accrue interest at 10% per year. The Montana District Court also deferred determination of compensation for 2008 and future years to the Montana State Land Board. In October 2008, PPL Montana appealed the decision to the Montana Supreme Court, requesting a stay of judgment and a stay of the Land Board's authority to assess compensation for 2008 and future periods.

In March 2010, the Montana Supreme Court substantially affirmed the June 2008 Montana District Court decision. As a result, in the first quarter of 2010, PPL Montana recorded a pre-tax charge of $56 million ($34 million after tax or $0.08 per share, basic and diluted, for PPL), representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. Rental compensation was estimated for periods subsequent to 2007, although such estimated amounts may differ from amounts ultimately determined by the Montana State Land Board. The portion of the pre-tax charge that related to prior years totaled $54 million ($32 million after tax). The pre-tax charge recorded on the Statement of Income was $49 million in "Other operation and maintenance" and $7 million in "Interest Expense." PPL Montana continues to accrue interest expense for the prior years and rent expense for the current year. PPL Montana's total loss accrual at June 30, 2011 was $81 million.

In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the Supreme Court granted PPL Montana's petition. This matter will be briefed on its merits, with oral argument likely to occur in late November or early December 2011 and a decision likely to be rendered by the Court by June 30, 2012. The stay of the judgment granted during the proceedings before the Montana Supreme Court has been extended by agreement with the State of Montana, to cover the anticipated period of the proceeding before the U.S. Supreme Court. PPL and PPL Energy Supply cannot predict the outcome of this matter, but do not expect to incur material losses beyond the estimated losses recorded.

PJM/MISO Billing Dispute *(PPL, PPL Energy Supply and PPL Electric)*

In 2009, PJM reported that it had discovered a modeling error in the market-to-market power flow calculations between PJM and MISO. The error was a result of incorrect modeling of certain generation resources that have an impact on power flows across the PJM/MISO border. Informal settlement discussions on this issue terminated in March 2010. Also in March 2010, MISO filed two complaints with the FERC concerning the modeling error and related matters with a demand for $130 million of principal plus interest. In April 2010, PJM filed answers to the complaints and filed a related complaint against MISO. In its answers and complaint, PJM denies that any compensation is due to MISO and seeks recovery in excess of $25 million from MISO for alleged violations by MISO regarding market-to-market power flow calculations. PPL participates in markets in both PJM and MISO. In June 2010, the FERC ordered the complaints to be consolidated and set for settlement discussions, followed by hearings if the discussions are unsuccessful. In January 2011, the parties to this dispute filed a settlement with the FERC under which no compensation would be paid to either PJM or MISO and providing for certain improvements in how the calculations are administered going forward. The settlement was contested by several parties and in June 2011 the FERC issued an order approving the contested settlement, which order has become final and is not subject to rehearing and appeal.

Regulatory Issues *(PPL, PPL Electric, LKE, LG&E and KU)*

See Note 6 for information on regulatory matters related to utility rate regulation.

Enactment of Financial Reform Legislation *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

In July 2010, the Dodd-Frank Act was signed into law. Of particular relevance to PPL and PPL Energy Supply, the Dodd-Frank Act includes provisions that will likely impose derivative transaction reporting requirements and will require most over-the-counter derivative transactions to be executed through an exchange or to be centrally cleared. The Dodd-Frank Act, however, provides an exemption from mandatory clearing and exchange trading requirements for over-the-counter derivative transactions used to hedge or mitigate commercial risk. Although the phrase "to hedge or mitigate commercial risk" is not defined in the Dodd-Frank Act, the 2010 rules proposed by the Commodity Futures Trading Commission (CFTC) set forth an inclusive, multi-pronged definition for the phrase. Based on this proposed definition and other requirements in the proposed rule, it is anticipated that transactions utilized by PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU should qualify if they are not entered into for speculative purposes. The Dodd-Frank Act also provides that the CFTC may impose collateral and margin requirements for over-the-counter derivative transactions, including those that are used to hedge commercial risk. However, during drafting of the Dodd-Frank Act, certain members of Congress adopted report language and issued a public letter stating that it was not their intention to impose margin and collateral requirements on counterparties that utilize these transactions to hedge commercial risk. Final rules on major provisions in the Dodd-Frank Act, including imposition of collateral and margin requirements, will be established through rulemakings and the CFTC has postponed implementation until December 31, 2011. PPL and PPL Energy Supply may be required to post additional collateral if they are subject to margin requirements as ultimately adopted in the implementing regulations of the Dodd-Frank Act. PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU will continue to evaluate the provisions of the Dodd-Frank Act and monitor developments related to its implementation. At this time, PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU cannot predict the impact that the new law or its implementing regulations will have on their businesses or operations, or the markets in which they transact business, but currently do not expect to incur material costs related to this matter.

New Jersey Capacity Legislation *(PPL, PPL Energy Supply and PPL Electric)*

In January 2011, New Jersey enacted a law that intervenes in the wholesale capacity market exclusively regulated by the FERC: S. No. 2381, 214th Leg. (N.J. 2011) (the Act). To create incentives for the development of new, in-state electric generation facilities, the Act implements a "long-term capacity agreement pilot program (LCAPP)." The Act requires New Jersey utilities to pay a guaranteed fixed price for wholesale capacity, imposed by the New Jersey Board of Public Utilities (BPU), to certain new generators participating in PJM, with the ultimate costs of that guarantee to be borne by New Jersey ratepayers. PPL believes the intent and effect of the LCAPP is to encourage the construction of new generation in New Jersey even when, under the FERC-approved PJM economic model, such new generation would not be economic. The Act could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to incent necessary generation investment throughout PJM. In February 2011, the PJM Power Providers Group (P3), an organization in which PPL is a member, filed a complaint before the FERC seeking changes in PJM's capacity market rules designed to ensure that subsidized generation, such as may result from the implementation of the LCAPP, will not be able to set capacity prices artificially low as a result of their exercise of buyer market power. In April 2011, the FERC issued an order granting in part and denying in part P3's complaint and ordering changes in PJM's capacity rules consistent with a significant portion of P3's requested changes. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

In addition, in February 2011, PPL, with several other generating companies and utilities, filed a complaint in Federal Court in New Jersey challenging the Act on the grounds that it violates well-established principles under the Supremacy Clause and the Commerce Clause of the U.S. Constitution. In this action, the Plaintiffs request declaratory and injunctive relief barring implementation of the Act by the Commissioners of the BPU. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

California ISO and Western U.S. Markets *(PPL and PPL Energy Supply)*

Through its subsidiaries, PPL Energy Supply made $18 million of sales to the California ISO during the period October 2000 through June 2001, $17 million of which has not been paid to PPL subsidiaries. Also, there has been further litigation about additional claims of refunds for periods prior to October 2000. In January 2011, PPL and the "California Parties" (collectively, three California utility companies, the California Public Utility Commission and certain California state authorities) filed a settlement under which PPL would receive approximately $1 million of its $17 million claim, plus interest of $1 million. In June 2011, the FERC approved the settlement; therefore PPL released its reserve and wrote-off the related receivable. Settlement proceeds were received in July.

In June 2003, the FERC took several actions as a result of several related investigations beyond the California ISO litigation. The FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. In August 2007, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC's decision and ordered the FERC to consider additional evidence. The FERC also commenced additional investigations relating to "gaming" and bidding practices during 2000 and 2001, but neither PPL EnergyPlus nor PPL Montana believes it is a subject of these investigations.

Although PPL and its subsidiaries believe that they have not engaged in any improper trading or marketing practices affecting the western markets, PPL and PPL Energy Supply cannot predict the outcome of the above-described investigations, lawsuits and proceedings or whether any subsidiaries will be the subject of any additional governmental investigations or named in other lawsuits or refund proceedings. Consequently, PPL and PPL Energy Supply cannot estimate a range of reasonably possible losses, if any, related to these matters.

PJM RPM Litigation *(PPL, PPL Energy Supply and PPL Electric)*

In May 2008, a group of state public utility commissions, state consumer advocates, municipal entities and electric cooperatives, industrial end-use customers and a single electric distribution company (collectively, the RPM Buyers) filed a complaint before the FERC objecting to the prices for capacity under the PJM Reliability Pricing Model (RPM) that were set in the 2008-09, 2009-10 and 2010-11 RPM base residual auctions. The RPM Buyers requested that the FERC reset the rates paid to generators for capacity in those periods to a significantly lower level. Thus, the complaint requests that generators be paid less for those periods through refunds and/or prospective changes in rates. The relief requested in the complaint, if granted, could have a material effect on PPL, PPL Energy Supply and PPL Electric. PJM, PPL and numerous other parties responded to the complaint, strongly opposing the relief sought by the RPM Buyers. In September 2008, the FERC entered an order denying the complaint. In August 2009, the RPM Buyers appealed the FERC's decision to the U.S. Court of Appeals for the Fourth Circuit, and the appeal was subsequently transferred to the U.S. Court of Appeals for the District of Columbia Circuit. In February 2011, the U.S. Court of Appeals for the District of Columbia Circuit issued an order denying the appeal. No party sought review of the order denying the appeal. FERC's September 2008 denial of the complaint is therefore final.

In December 2008, PJM submitted amendments to certain provisions governing its RPM capacity market. The amendments were intended to permit the compensation available to suppliers that provide capacity, including PPL Energy Supply, to increase. PJM sought approval of the amendments in time for them to be implemented for the May 2009 capacity auction (for service in June 2012 through May 2013). Numerous parties, including PPL, protested PJM's filing. Certain of the protesting parties, other than PPL, proposed changes to the capacity market auction that would result in a reduction in compensation to capacity suppliers. The changes proposed by PJM and by other parties in response to PJM proposals could significantly affect the compensation available to suppliers of capacity participating in future RPM auctions. In March 2009, the FERC entered an order approving in part and disapproving in part the changes proposed by PJM. In August 2009, the FERC issued an order granting rehearing in part, denying rehearing in part and clarifying its March 2009 order. No request for rehearing or appeal of the August 2009 order was timely filed. In October 2010, the August 2009 Order became final and will not have a material impact on PPL, PPL Energy Supply or PPL Electric.

FERC Market-Based Rate Authority *(PPL, PPL Energy Supply, LKE, LG&E and KU)*

In December 1998, the FERC authorized PPL EnergyPlus to make wholesale sales of electric power and related products at market-based rates. In that order, the FERC directed PPL EnergyPlus to file an updated market analysis within three years after the order, and every three years thereafter. Since then, periodic market-based rate filings with the FERC have been made by PPL EnergyPlus, PPL Electric, PPL Montana and most of PPL Generation's subsidiaries. These filings consisted of a Northwest market-based rate filing for PPL Montana and a Northeast market-based rate filing for most of the other PPL subsidiaries in PJM's region. In December 2010, PPL filed its market-based rate update for the Eastern region. In January 2011, PPL filed the market-based rate update for the Western region. In June 2011, PPL filed its market-based rate update for the Southeast region, including LG&E and KU in addition to PPL EnergyPlus. In June 2011, the FERC issued an order approving LG&E's and KU's request for a determination that they no longer be deemed to have market power in the Big Rivers Electric Corporation balancing area and removing restrictions on their market-based rate authority in such region.

Currently, a seller granted market-based rate authority by the FERC may enter into power contracts during an authorized time period. If the FERC determines that the market is not workably competitive or that the seller possesses market power or is not charging "just and reasonable" rates, it may institute prospective action, but any contracts entered into pursuant to the FERC's market-based rate authority remain in effect and are generally subject to a high standard of review before the FERC can order changes. Recent court decisions by the U.S. Court of Appeals for the Ninth Circuit have raised issues that may make it more difficult for the FERC to continue its program of promoting wholesale electricity competition through market-based rate authority. These court decisions permit retroactive refunds and a lower standard of review by the FERC for changing power contracts, and could have the effect of requiring the FERC in advance to review most, if not all, power contracts. In June 2008, the U.S. Supreme Court reversed one of the decisions of the U.S. Court of Appeals for the Ninth Circuit, thereby upholding the higher standard of review for modifying contracts. The FERC has not yet taken action in response to these court decisions. At this time, PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the impact of these court decisions on the FERC's future market-based rate authority program or on their businesses.

Energy Policy Act of 2005 - Reliability Standards *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk power system. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk power electricity system, including electric utility companies, generators and marketers. The FERC has indicated it intends to vigorously enforce the Reliability Standards using, among other means, civil penalty authority. Under the Federal Power Act, the FERC may assess civil penalties of up to $1 million per day, per violation, for certain violations. The first group of Reliability Standards approved by the FERC became effective in June 2007.

LG&E, KU , PPL Electric and certain subsidiaries of PPL Energy Supply continue to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans. The resolution of a number of these potential violation reports is pending. Any regional reliability entity determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC. PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any, other than the amounts currently recorded.

In the course of implementing its program to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time.

Environmental Matters - Domestic

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Due to the environmental issues discussed below or other environmental matters, PPL subsidiaries may be required to modify, curtail, replace or cease operating certain facilities or operations to comply with statutes, regulations and other requirements of regulatory bodies or courts.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Air

The Clean Air Act addresses, among other things, emissions causing acid deposition, installation of best available control technologies for new or substantially modified sources, attainment of national ambient air quality standards, toxic air emissions and visibility standards in the U.S. Amendments to the Clean Air Act requiring additional emission reductions had been proposed but are unlikely to be introduced or passed in this Congress. The Clean Air Act allows states to develop more stringent regulations and in some instances, as discussed below, Kentucky, Pennsylvania and Montana have done so.

To comply with air related requirements and other environmental requirements as described below, PPL's forecast for capital expenditures reflects a best estimate projection of expenditures that may be required within the next five years. Such projections are a combined $3.1 billion for LG&E and KU (which includes $600 million currently approved in its ECR plans during the 2011 through 2013 time period to achieve emissions reductions and manage coal combustions residuals and $2.5 billion recently requested through the 2011 ECR Plan for additional expenditures to comply with new clean air rules and manage coal combustion residuals) and $400 million for PPL Energy Supply. Actual costs may be significantly lower or higher depending on the final requirements. Certain environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are subject to recovery through the ECR. See Note 6 for additional information on the ECR plan.

Cross State Air Pollution Rule (CSAPR) formerly Clean Air Transport Rule

In July 2011, the EPA signed the CSAPR which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. The CSAPR replaces the EPA's previous Clean Air Interstate Rule (called CAIR) which was struck down by the U.S. Court of Appeals for the District of Columbia Circuit (the Court) in July 2008. CAIR subsequently was effectively reinstated by the Court in December 2008, pending finalization of the Transport Rule. Like CAIR and the proposed Transport Rule, the CSAPR only applies to PPL's generation facilities located in Kentucky and Pennsylvania.

The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxides. The CSAPR establishes a new sulfur dioxide emission allowance cap and trade program that is completely independent of and more stringent than the current Acid Rain Program. The CSAPR also establishes new nitrogen oxide emission allowance cap and trade programs to replace the current programs that are also more restrictive than the existing programs. All trading is more restrictive than previously under CAIR. The CSAPR will be implemented in two phases. The first phase of the sulfur dioxide and nitrogen oxide emissions caps becomes effective in 2012. The second phase, lowering both of these caps, becomes effective in 2014.

With respect to PPL's competitive generation in Pennsylvania, greater reductions in sulfur dioxide emissions will be required beginning in 2012 under CSAPR than were required under CAIR starting in 2015. For the initial phase of the rule beginning in 2012, PPL Energy Supply's sulfur dioxide allowance allocations are expected to meet the forecasted emissions based on present operations of existing scrubbers and coal supply. For the second phase beginning in 2014, the further reduction in allocations will most likely be met with increased operations of the existing scrubbers. With respect to nitrogen oxide, CSAPR provides a slightly higher amount of allowances for PPL Energy Supply's Pennsylvania plants, but still less than PPL Energy Supply's current forecasted emissions. With uncertainty surrounding the trading program, other compliance options are being analyzed for the Pennsylvania fleet, such as the installation of new technology or modifications of plant operations.

With respect to LG&E and KU, greater reductions in sulfur dioxide emissions will also be required under the CSAPR beginning in 2012 than were required under CAIR starting in 2015. For the initial phase of the rule beginning in 2012, sulfur dioxide allowance allocations are expected to meet the forecasted emissions based on present operations of existing scrubbers and coal supply. However, by the second phase beginning in 2014, LG&E and KU will likely have to take additional measures with respect to the operation and dispatch of their generation fleet, including upgrades or installation of new scrubbers for certain generating units or retirement of certain units. With respect to nitrogen oxide, the CSAPR allocates a slightly lower amount of allowances compared to those allocated under CAIR. With uncertainty surrounding the trading program, other compliance options are being analyzed for the Kentucky fleet, such as the installation of new technology, the retirement of certain units and modifications of plant operations. LG&E and KU are seeking recovery of their expected costs to comply with the CSAPR and certain other EPA requirements through the ECR plan filed with the KPSC in June 2011. See Note 6 for additional information.

In addition to the reductions in sulfur dioxide and nitrogen oxide emissions required under the CSAPR for the Pennsylvania and Kentucky plants, PPL's plants, including those in Montana, may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. The EPA has recently finalized a new one-hour standard for sulfur dioxide, and states are required to identify areas that meet those standards and areas that are in non-attainment. For non-attainment areas, states are required to develop plans by 2014 to achieve attainment by 2017. For areas in attainment or unclassifiable, states are required to develop maintenance plans by mid-2013 that demonstrate continued attainment. PPL, PPL Energy Supply, LKE, LG&E and KU anticipate that some of the measures required for compliance with CSAPR such as upgraded or new scrubbers at some of their plants or retirements of certain units may also be necessary to achieve compliance with new sulfur dioxide standards. If additional reductions were to be required, the economic impact to each could be significant.

Mercury and other Hazardous Air Pollutants

Citing its authority under the Clean Air Act, in 2005, the EPA issued the Clean Air Mercury Rule (CAMR) affecting coal-fired power plants. Since the CAMR was overturned in a 2008 U.S. Circuit Court decision, the EPA is now proceeding to develop standards imposing MACT for mercury emissions and other hazardous air pollutants from electric generating units. Under a recently approved settlement, the EPA is required to issue final MACT standards by November 2011. In order to develop these standards, the EPA has collected information from coal- and oil-fired electric utility steam generating units. In May 2011, the EPA published a proposed MACT regulation providing for stringent reductions of mercury and other hazardous air pollutants. The proposed rule also provides for a three-year compliance deadline, with the potential for a one-year extension as provided under the statute. Based on their assessment of the need to install pollution control equipment to meet this rule, LG&E and KU have filed requests with the KPSC for environmental cost recovery to facilitate moving forward with plans to install environmental controls including sorbent injection and fabric-filter baghouses to remove certain hazardous air pollutants. The cost for these controls is reflected in the $2.5 billion cost noted under "Air" above. LG&E and

KU are also evaluating the potential for shutdown of certain units for which retrofits would not be cost-effective. The potential economic impact on PPL Energy Supply plants, including plant closures or other actions, cannot be estimated at this time, however, such impact could be significant. PPL Energy Supply, LG&E and KU are continuing to conduct in-depth reviews of the proposed rule.

Regional Haze and Visibility

The Clean Air Visibility Rule was issued by the EPA in June 2005 to address regional haze or regionally-impaired visibility caused by multiple sources over a wide area. The rule requires Best Available Retrofit Technology (BART) for certain electric generating units. Under the BART rule, PPL submitted to the PADEP its analyses of the visibility impacts of particulate matter emissions from Martins Creek Units 3 and 4, Brunner Island Units 2 and 3 and Montour Units 1 and 2. No analysis was submitted for sulfur dioxide or nitrogen oxides, because the EPA determined that meeting the requirements for the CAIR also satisfies the BART requirements for those pollutants. Although the EPA has not yet expressly stated that a similar approach will be taken under the CSAPR, the EPA has not requested any further studies. PPL's analyses have shown that, because PPL had already upgraded its particulate emissions controls at Montour Units 1 and 2 and Brunner Island Units 2 and 3, further controls are not justified as there would be little corresponding visibility improvement. PPL has not received comments from the PADEP on these submissions.

Also under the BART rule, PPL submitted to the EPA its analyses of the visibility impacts of sulfur dioxide, nitrogen oxides and particulate matter emissions for Colstrip Units 1 and 2 and Corette. PPL's analyses concluded that further reductions are not warranted. The EPA responded to PPL's reports for Colstrip and Corette and requested further information and analysis. PPL completed further analysis and submitted addendums to its initial reports for Colstrip and Corette. In February 2009, PPL received an information request for additional data related to the Colstrip generating plant non-BART-affected emission sources. PPL responded to this request in March 2009.

In November 2010, PPL Montana received a request from the EPA Region 8, under EPA's Reasonable Further Progress goals of the Regional Haze Rules, to provide further analysis with respect to Colstrip Units 3 and 4. Colstrip's Units 3 and 4 are not BART eligible units. PPL completed a high-level analysis of various control options to reduce emissions of sulfur dioxide and particulate matter, and submitted that analysis to the EPA in January 2011. The analysis shows that any incremental reductions would not be cost effective and that further analysis is not warranted. PPL also concluded that further analysis for nitrogen oxides was not justifiable as these units installed controls under a Consent Decree in which the EPA had previously agreed that, when implemented, would satisfy the requirements for installing BART for nitrogen oxides. The EPA has indicated that it does not agree with all of PPL's conclusions and has requested additional information to which PPL is responding. Additionally, the EPA recently informally indicated to PPL Montana that substantially more reductions in both nitrogen oxide and sulfur dioxide emissions may be required.

PPL and PPL Energy Supply cannot predict whether any additional reductions in emissions will be required in Pennsylvania or Montana. If additional reductions are required, the economic impact could be significant depending on what is required.

LG&E and KU also submitted analyses of the visibility impacts of their Kentucky BART-eligible sources to the Kentucky Division for Air Quality (KDAQ). Only LG&E's Mill Creek plant was determined to have a significant regional haze impact. The KDAQ has submitted a regional haze state implementation plan (SIP) to the EPA which requires the Mill Creek plant to reduce its sulfuric acid mist emissions from Units 3 and 4. After approval of the Kentucky SIP by the EPA and revision of the Mill Creek plant's Title V air permit, LG&E intends to install sorbent injection controls at the plant to reduce sulfuric acid mist emissions. In the event that the EPA determines that compliance with CSAPR would be insufficient to meet BART requirements, it would be necessary for LG&E and KU to reassess their planned compliance measures.

New Source Review (NSR)

The EPA has resumed its NSR enforcement efforts targeting coal-fired power plants. The EPA has asserted that modification of these plants has increased their emissions and, consequently, that they are subject to stringent NSR requirements under the Clean Air Act. In April 2009, PPL received EPA information requests for its Montour and Brunner Island plants. The requests are similar to those that PPL received several years ago for its Colstrip, Corette and Martins Creek plants. PPL and the EPA have exchanged certain information regarding this matter. In January 2009, PPL and other companies that own or operate the Keystone plant in Pennsylvania received a notice of violation from the EPA alleging that certain projects were undertaken without proper NSR compliance. PPL and PPL Energy Supply cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In addition, in August 2007, LG&E and KU received information requests for their Mill Creek, Trimble County, and Ghent plants, but have received no further communications from the EPA since providing their responses. PPL, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In March 2009, KU received a notice of violation alleging that KU violated certain provisions of the Clean Air Act's rules governing NSR and prevention of significant deterioration by installing flue gas desulfurization and SCR controls at its Ghent generating station without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. In December 2009, the EPA issued an information request seeking additional information on this matter. KU has exchanged settlement proposals and other information with the EPA regarding imposition of additional permit limits and emission controls and anticipates continued settlement negotiations. In addition, any settlement or future litigation could potentially encompass a September 2007 notice of violation alleging opacity violations at the plant. Depending on the provisions of a final settlement or the results of litigation, if any, resolution of this matter could involve significant increased operating and capital expenditures. PPL, LKE and KU are currently unable to predict the final outcome of this matter, and cannot estimate a range of reasonably possible losses, if any.

If PPL subsidiaries are found to have violated NSR regulations, PPL would, among other things, be required to meet permit limits reflecting Best Available Control Technology (BACT) for the emissions of any pollutant found to have significantly increased due to a major plant modification. The costs to meet such limits, including installation of technology at certain units, could be significant.

States and environmental groups also have initiated enforcement actions and litigation alleging violations of the NSR regulations by coal-fired plants, and PPL is unable to predict whether such actions will be brought against any of PPL's plants.

Pursuant to the 2007 U.S. Supreme Court decision on global climate change, as discussed below, the EPA issued regulations governing carbon dioxide emissions from new or modified stationary sources under its NSR regulations. The regulations became effective beginning January 2011. The NSR regulations require major new or modified sources of regulated pollutants to receive pre-construction and operating permits with limits that prevent the significant deterioration of air quality in areas that are in attainment of the ambient air quality standards for certain pollutants. In May 2010, the EPA published a final rule establishing thresholds for regulating GHG emissions from major new or modified sources. Combined carbon dioxide emissions or carbon dioxide equivalent emissions of 100,000 tons or more per year will classify a source as major for permitting applicability purposes. The threshold for a major modification of a major source is an increase of carbon dioxide or carbon dioxide equivalent emissions of 75,000 tons per year, although a significant increase in non carbon dioxide regulated pollutants is also required for modifications undertaken prior to July 2011. If a modification results in emissions increases exceeding the threshold, the plant will need to conduct an analysis of BACT for GHG and meet limits based on BACT. To date, the EPA has not provided final guidance on what constitutes BACT for GHG emissions, but has indicated in draft guidance that it may consider efficiency projects and other options as possible best available control technology for carbon dioxide emissions from power plants. In addition, in December 2010, the EPA announced that it intends to promulgate New Source Performance Standards addressing GHG emissions from new and existing power plants, with a proposed rule currently anticipated to be published in September 2011 and a final rule issued in May 2012. The implications of these developments, including the outcome of any litigation challenging these regulations, are uncertain.

Trimble County Unit 2 Air Permit (PPL, LKE, LG&E and KU)

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the TC2 baseload generating unit, but the agency upheld the permit in an Order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit which were incorporated into a final revised permit issued by the KDAQ in January 2010. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot currently predict the outcome of this matter or the potential impact on the capital costs of this project.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Global Climate Change

There is concern nationally and internationally about global climate change and the possible contribution of GHG emissions including, most significantly, carbon dioxide, from the combustion of fossil fuels. This has resulted in increased demands for carbon dioxide emission reductions from investors, environmental organizations, government agencies and the international community. These demands and concerns have led to federal legislative proposals, actions at regional, state and local levels, litigation relating to GHG emissions and the EPA regulations on GHGs.

Greenhouse Gas Legislation

While climate change legislation was considered during the 111th Congress, the outcome of the 2010 elections has halted the debate on such legislation in the current 112th Congress. The timing and elements of any future legislation addressing GHG emission reductions are uncertain at this time. In the current Congress, legislation barring EPA from regulating GHG emissions under the existing authority of the Clean Air Act has been passed by the U.S. House of Representatives. Various bills providing for barring or delaying the EPA from regulating GHG emissions have been introduced in the U.S. Senate, but the prospects for passage of such legislation remain uncertain. At the state level, the 2010 elections in Pennsylvania have also reduced the likelihood of GHG legislation in the near term, and there are currently no prospects for such legislation in Kentucky or Montana.

Greenhouse Gas Regulations and Tort Litigation

As a result of the April 2007 U.S. Supreme Court decision that the EPA has the authority to regulate GHG emissions from new motor vehicles under the Clean Air Act, in April 2010, the EPA and the U.S. Department of Transportation issued new light-duty vehicle emissions standards that will apply beginning with 2012 model year vehicles. The EPA has also clarified that this standard triggers regulation of GHG emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act starting in 2011. This means that any new sources or major modifications to existing sources causing a net significant emissions increase requires BACT permit limits for GHGs. The EPA recently proposed guidance for conducting a BACT analysis for projects that trigger such a review. In addition, New Source Performance Standards for new and existing power plants are expected to be proposed in September 2011 and finalized in May 2012.

At the regional level, ten northeastern states signed a Memorandum of Understanding (MOU) agreeing to establish a GHG emission cap-and-trade program, called the Regional Greenhouse Gas Initiative (RGGI). The program commenced in January 2009 and calls for stabilizing carbon dioxide emissions, at base levels established in 2005, from electric power plants with capacity greater than 25 MW. The MOU also provides for a 10% reduction in carbon dioxide emissions from base levels by 2019.

Pennsylvania has not stated an intention to join RGGI, but has enacted the Pennsylvania Climate Change Act of 2008 (PCCA). The PCCA established a Climate Change Advisory Committee to advise the PADEP on the development of a Climate Change Action Plan. In December 2009, the Advisory Committee finalized its Climate Change Action Report which identifies specific actions that could result in reducing GHG emissions by 30% by 2020. Some of the proposed actions, such as a mandatory 5% efficiency improvement at power plants, could be technically unachievable. To date, there have been no regulatory or legislative actions taken to implement the recommendations of the report. In addition, legislation has been introduced and amendments filed to several bills that would, if enacted, significantly increase renewable and solar supply requirements. It is unlikely that this legislation will achieve passage in the 2011 legislative session.

Eleven Western states, including Montana and certain Canadian provinces, are members of the Western Climate Initiative (WCI). The WCI has established a goal of reducing carbon dioxide emissions 15% below 2005 levels by 2020 and is currently developing GHG emission allocations, offsets, and reporting recommendations.

In November 2008, the Governor of Kentucky issued a comprehensive energy plan including non-binding targets aimed at promoting improved energy efficiency, development of alternative energy, development of carbon capture and sequestration projects, and other actions to reduce GHG emissions. In December 2009, the Kentucky Climate Action Plan Council was established to develop an action plan addressing potential GHG reductions and related measures. A final plan is expected in 2011. The impact of any such plan is not now determinable, but the costs to comply with the plan could be significant.

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting facilities, and the law remains unsettled on these claims. In September 2009, the U.S. Court of Appeals for the Second Circuit in the case of AEP v. Connecticut reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In June 2011, the U.S. Supreme Court overturned the lower court and held that such federal common law claims were displaced by the Clean Air Act and regulatory actions of the EPA. In Comer v. Murphy Oil, the U.S. Court of Appeals for the Fifth Circuit recently declined to overturn a district court ruling that plaintiffs did not have standing to pursue state common law claims against companies that emit GHGs. The complaint in the Comer case named the previous indirect parent of LKE as a defendant based upon emissions from the Kentucky plants. In January 2011, the Supreme Court denied a pending petition to reverse the Court of Appeals' ruling. In May 2011, the plaintiffs in the Comer case filed a substantially similar complaint in federal district court in Mississippi against 87 companies, including KU and three other indirect subsidiaries of LKE, under a

Mississippi statute that allows the re-filing of an action in certain circumstances. Additional litigation in federal and state courts over these issues is continuing. PPL, LKE and KU cannot predict the outcome of this litigation or estimate a range of reasonably possible losses, if any.

PPL continues to evaluate options for reducing, avoiding, off-setting or sequestering its carbon dioxide emissions. In 2010, PPL's power plants, including PPL's share of jointly owned assets, emitted approximately 37 million tons of carbon dioxide (including 6 million tons of emissions from the LKE plants after their acquisition on November 1, 2010) compared to 29 million tons in 2009 without LG&E and KU emissions. LG&E's and KU's generating fleets, including their share of jointly owned assets, emitted approximately 19 million tons and approximately 18 million tons of carbon dioxide in 2010, compared to approximately 17 million tons and approximately 16 million tons in 2009. All tons are U.S. short tons (2,000 lbs/ton).

Renewable Energy Legislation (PPL and PPL Energy Supply)

There has been interest in renewable energy legislation at both the state and federal levels. At the federal level, House and Senate bills proposed in the 111th Congress would have imposed mandatory renewable energy supply and energy efficiency requirements in the 15% to 20% range by approximately 2020. Earlier in the year, there were discussions regarding a Clean Energy Standard (CES) that addressed not only renewables but also encouraged clean energy requirements (as yet to be defined). At this time, neither the renewable energy debate nor the CES discussion is expected to gain momentum at the federal or state levels (beyond what is otherwise already required in Pennsylvania and Montana) in the near term.

PPL believes there are financial, regulatory and logistical uncertainties related to GHG reductions and the implementation of renewable energy mandates. These will need to be resolved before the impact of such requirements on PPL can be meaningfully estimated. Such uncertainties, among others, include the need to provide back-up supply to augment intermittent renewable generation, potential generation oversupply that could result from such renewable generation and back-up, impacts to PJM's capacity market and the need for substantial changes to transmission and distribution systems to accommodate renewable energy. These uncertainties are not directly addressed by proposed legislation. PPL and PPL Energy Supply cannot predict at this time the effect on their future competitive position, results of operation, cash flows and financial position, of any GHG emissions, renewable energy mandate or other global climate change requirements that may be adopted, although the costs to implement and comply with any such requirements could be significant.

Water/Waste

Coal Combustion Residuals (CCRs) (PPL, PPL Energy Supply, LKE, LG&E and KU)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs under the Resource Conservation and Recovery Act (RCRA). CCRs include fly ash, bottom ash and scrubber wastes. The first approach would regulate CCRs as a hazardous waste under Subtitle C of the RCRA. This approach would have very significant impacts on any coal-fired plant, and would require plants to retrofit their operations to comply with full hazardous waste requirements from the generation of CCRs and associated waste waters through transportation and disposal. This would also have a negative impact on the beneficial use of CCRs and could eliminate existing markets for CCRs. The second approach would regulate CCRs as a solid waste under Subtitle D of the RCRA. This approach would mainly affect disposal and most significantly affect any wet disposal operations. Under this approach, many of the current markets for beneficial uses would not be affected. Currently, PPL expects that several of its plants in Kentucky and Montana could be significantly impacted by the requirements of Subtitle D of the RCRA, as these plants are using surface impoundments for management and disposal of CCRs.

The EPA has issued information requests on CCR management practices at numerous plants throughout the power industry as it considers whether or not to regulate CCRs as hazardous waste. PPL has provided information on CCR management practices at most of its plants in response to the EPA's requests. In addition, the EPA has conducted follow-up inspections to evaluate the structural stability of CCR management facilities at several PPL plants and PPL has implemented certain actions in response to recommendations from these inspections.

The EPA is continuing to evaluate the unprecedented number of comments it received on its June 2010 proposed regulations and in July 2011 issued a notice of data availability requesting additional comments on certain information collected as part of the regulatory development process. In addition, the House Energy and Commerce Committee approved a bill to modify Subtitle D of the RCRA to provide for the proper management and disposal of CCRs and that would preclude the EPA from regulating CCRs under Subtitle C of the RCRA.

In June 2009, the EPA's Office of Enforcement and Compliance Assurance issued a much broader information request to Colstrip and 18 other non-affiliated plants, seeking information under the RCRA, the Clean Water Act and the Emergency Planning and Community Right-to-Know Act. PPL responded to the EPA's broader information request. Although the EPA's enforcement office issued the request, the EPA has not necessarily concluded that the plants are in violation of any EPA requirements. The EPA conducted a multi-media inspection at Colstrip in August 2009 and issued a report in December 2010 stating that the EPA did not identify any violations of the applicable compliance standards for the Colstrip facility.

PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the final requirements of the EPA's CCR regulations or potential changes to the RCRA and what impact they would have on their facilities, but the economic impact could be significant.

Martins Creek Fly Ash Release (PPL and PPL Energy Supply)

In 2005, there was a release of approximately 100 million gallons of water containing fly ash from a disposal basin at the Martins Creek plant used in connection with the operation of the plant's two 150 MW coal-fired generating units. This resulted in ash being deposited onto adjacent roadways and fields, and into a nearby creek and the Delaware River. PPL determined that the release was caused by a failure in the disposal basin's discharge structure. PPL conducted extensive clean-up and completed studies, in conjunction with a group of natural resource trustees and the Delaware River Basin Commission, evaluating the effects of the release on the river's sediment, water quality and ecosystem.

The PADEP filed a complaint in Pennsylvania Commonwealth Court against PPL Martins Creek and PPL Generation, alleging violations of various state laws and regulations and seeking penalties and injunctive relief. PPL and the PADEP have settled this matter. The settlement also required PPL to submit a report on the completed studies of possible natural resource damages. PPL subsequently submitted the assessment report to the Pennsylvania and New Jersey regulatory agencies and has continued discussing potential natural resource damages and mitigation options with the agencies.

Through June 30, 2011, PPL Energy Supply has spent $28 million for remediation and related costs and an insignificant remediation liability remains on the balance sheet. PPL and PPL Energy Supply cannot be certain of the outcome of the natural resource damage assessment or the associated costs, the outcome of any lawsuit that may be brought by citizens or businesses or the exact nature of any other regulatory or other legal actions that may be initiated against PPL, PPL Energy Supply or their subsidiaries as a result of the disposal basin release. However, PPL and PPL Energy Supply currently do not expect such outcomes to result in material losses above the amounts currently recorded.

Basin Seepage – Pennsylvania and Kentucky (PPL, PPL Energy Supply, LKE, LG&E and KU)

Seepages have been detected at active and retired wastewater basins at various PPL plants. PPL has completed or is completing assessments of seepages at various facilities and is working with agencies to implement abatement measures for those seepages, where required. A range of reasonably possible losses cannot currently be estimated.

Basin Seepage - Montana (PPL and PPL Energy Supply)

In 2007, six plaintiffs filed a lawsuit in the Montana Sixteenth Judicial District Court against the Colstrip plant owners asserting property damage claims from seepage from wastewater ponds at Colstrip. A tentative settlement agreement was reached in July 2010. The settlement is not yet final, and may not be honored by the plaintiffs, but PPL Montana's share is not expected to be significant.

Conemaugh River Discharges (PPL and PPL Energy Supply)

In April 2007, PennEnvironment and the Sierra Club brought a Clean Water Act citizen suit in the U.S. District Court for the Western District of Pennsylvania (the Western District Court) against GenOn Northeast Management Company (then known as Reliant Energy Northeast Management Company) (GenOn), as operator of Conemaugh Generating Station (CGS), seeking civil penalties and injunctive relief for alleged violations of CGS's NPDES water discharge permit. A PPL Energy Supply subsidiary holds a 16.25% undivided, tenant-in-common ownership interest in CGS.

Throughout the relevant time period, the operators of CGS have worked closely with the PADEP to ensure that the facility is operated in a manner that does not cause any adverse environmental impacts to the Conemaugh River, a waterway already significantly impacted by discharges from abandoned coal mines and other historical industrial activity with respect to which neither PPL nor CGS had any involvement. Pursuant to a Consent Order and Agreement between the PADEP and GenOn (the CGS COA), a variety of studies have been conducted, a water treatment facility for cooling tower blowdown has been designed and built, and a second treatment facility for flue gas desulfurization effluent has been designed (and is awaiting final PADEP approval for construction), all in order to comply with the stringent limits set out in CGS's NPDES permit.

In the lawsuit, GenOn has argued that the CGS COA should preclude the plaintiffs from maintaining their lawsuit, but the Western District Court has disagreed and there is no binding precedent on the matter. The Western District Court initially dismissed plaintiffs' lawsuit in December 2009 for lack of standing, but in September 2010 granted plaintiffs' motion for reconsideration and reinstated the lawsuit. In both cases, the Western District Court disagreed that the CGS COA precluded the lawsuit.

In March 2011, the Western District Court entered a partial summary judgment in the plaintiffs' favor, declaring that discharges from CGS violated the NPDES permit. The case was originally scheduled for a non-jury trial starting in June 2011, at which time the Western District Court was expected to determine what, if any, civil penalties and injunctive relief might be appropriate. The non-jury trial was subsequently postponed and the parties are engaged in settlement discussions. In the event of an adverse verdict at trial, an appeal is likely. If the plaintiffs are ultimately successful, PPL Energy Supply could incur its share of any civil penalties and costs to implement additional discharge reductions. PPL and PPL Energy Supply cannot predict the outcome of this matter but do not expect any potential losses to be significant.

Other Issues (PPL, PPL Energy Supply, LKE, LG&E and KU)

In 2006, the EPA significantly decreased to 10 parts per billion (ppb) the drinking water standards related to arsenic. In Pennsylvania, Montana and Kentucky, this arsenic standard has been incorporated into the states' water quality standards and could result in more stringent limits in NPDES permits for its Pennsylvania, Montana and Kentucky plants. Subsequently, the EPA developed a draft risk assessment for arsenic that increases the cancer risk exposure by more than 20 times, which would lower the current standard from 10 ppb to 0.1 ppb. If the lower standard becomes effective, costly treatment would be required to attempt to meet the standard and, at this time, there is no assurance that it could be achieved. PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the outcome of the draft risk assessment and what impact, if any, they would have on their facilities, but the costs could be significant.

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxics Substance Control Act, which currently allow certain PCB articles to remain in use. In April 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. This rulemaking could lead to a phase-out of all PCB-containing equipment. PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the outcome of these proposed EPA regulations and what impact, if any, they would have on their facilities, but the costs could be significant.

The EPA finalized requirements in 2004 for new or modified cooling water intake structures. These requirements affect where generating facilities are built, establish intake design standards and could lead to requirements for cooling towers at new and modified power plants. Another rule, finalized in 2004, that addressed existing structures was withdrawn following a 2007 decision by the U.S. Court of Appeals for the Second Circuit. In 2009, however, the U.S. Supreme Court ruled that the EPA has discretion to use cost-benefit analysis in determining the best technology available for minimizing adverse environmental impact to aquatic organisms. The EPA published the proposed rule in the *Federal Register* in April 2011. The comment period ends in August 2011. The final rule is to be issued by July 2012. The industry and PPL are reviewing the proposed rule and will be submitting comments. The proposed rule contains two requirements to reduce impact to aquatic organisms. The first requires all existing facilities to meet standards for the reduction of mortality of aquatic organisms that become trapped against water intake screens regardless of the levels of mortality actually occurring or the cost of achieving the requirements. A form of cost-benefit analysis is allowed for the second requirement when determining mortality of aquatic organisms that are pulled through the plant's cooling water system. This process involves a site-specific evaluation based on nine factors including impacts to energy delivery reliability and remaining useful life of the plant. Since the rule is written to allow for certain site-specific determinations of the best technology available, state implementation of the rule could impose requirements that could result in significant costs to PPL plants ranging from installation of fine mesh screens on cooling water intakes to construction of cooling towers. PPL, PPL Energy Supply, LKE, LG&E and KU will be unable to determine the exact impact until a final rule is issued and the required studies have been completed.

In October 2009, the EPA released its Final Detailed Study of the Steam Electric Power Generating effluent limitations guidelines and standards. Final regulations are expected to be effective in 2013. PPL expects the revised guidelines and standards to be more stringent than the current standards, which could result in more stringent discharge permit limits.

PPL has signed a Consent Order and Agreement (the Brunner COA) with the PADEP under which it agreed, under certain conditions, to take further actions to minimize the possibility of fish kills at its Brunner Island plant. Fish are attracted to warm water in the power plant discharge channel, especially during cold weather. Debris at intake pumps can result in a unit trip or reduction in load, causing a sudden change in water temperature. PPL has committed to construct a barrier to prevent debris from entering the river water intake area, pending receipt of regulatory permits, at a cost of approximately $4 million.

PPL has also investigated alternatives to exclude fish from the discharge channel and submitted three alternatives to the PADEP. According to the Brunner COA, once the cooling towers at Brunner Island became operational, PPL must implement one of these fish exclusion alternatives if a fish kill occurs in the discharge channel due to thermal impacts from the plant . Following start-up of the cooling towers in April 2010, several hundred dead fish were found in the cooling tower intake basket although there were no sudden changes in water temperature. In the third quarter of 2010, PPL discussed this matter with the PADEP and both parties agreed that this condition was not one anticipated by the Brunner COA, thereby concluding it did not trigger a need to implement a fish exclusion project. At this time, no fish exclusion project is planned.

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County station. In November 2010, the Cabinet issued a final order upholding the permit. In December 2010, the environmental groups appealed the order to Trimble Circuit Court. PPL, LKE and LG&E are unable to predict the outcome of this matter or estimate a range of reasonably possible losses, if any.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Superfund and Other Remediation

PPL is a potentially responsible party at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site, the Metal Bank site and the Ward Transformer site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been significant to PPL. However, should the EPA require different or additional measures in the future, or should PPL's share of costs at multi-party sites increase significantly more than currently expected, the costs to PPL could be significant.

PPL is remediating or has completed the remediation of several sites that were not addressed under a regulatory program such as Superfund, but for which PPL may be liable for remediation. These include a number of former coal gas manufacturing facilities in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL. There are additional sites, formerly owned or operated by PPL predecessors or affiliates, for which PPL lacks information on current site conditions and is therefore unable to predict what, if any, potential liability it may have.

In June 2011, Lepore-Moyers Partnership (LMP) filed a complaint in federal district court against PPL Electric, UGI Corporation and a neighboring property owner relating to contamination allegedly emanating from the former Mount Joy Manufactured Gas Plant (MGP) site located in Lancaster County, Pennsylvania. LMP owns property adjacent to the Mount Joy MGP site and claims that environmental testing done on its property indicates the presence of volatile organic compounds in the soil and/or groundwater. LMP claims that defendants are responsible for, among other things, the reimbursement of costs, future response costs, investigation and remediation of the contamination, and damages caused by the contamination. PPL and PPL Electric cannot estimate a range of reasonably possible losses, if any, or predict the outcome of this matter.

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which PPL currently lacks information, the costs of remediation and other liabilities could be substantial. PPL and its subsidiaries also could incur other non-remediation costs at sites included in current consent orders or other contaminated sites which could be significant. PPL is unable to estimate a range of reasonably possible losses, if any, related to these matters.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing facilities PPL cannot estimate a range of reasonably possible losses, if any, related to these matters.

Under the Pennsylvania Clean Streams Law, subsidiaries of PPL Generation are obligated to remediate acid mine drainage at former mine sites and may be required to take additional steps to prevent potential acid mine drainage at previously capped refuse piles. One PPL Generation subsidiary is pumping mine water at two mine sites and treating water at one of these sites. Another PPL Generation subsidiary has installed a passive wetlands treatment system at a third site. At June 30, 2011, PPL Energy Supply had accrued a discounted liability of $26 million to cover the costs of pumping and treating groundwater at the two mine sites for 50 years and for operating and maintaining passive wetlands treatment at the third site. PPL Energy

Supply discounted this liability based on risk-free rates at the time of the mine closures. The weighted-average rate used was 8.16%. Expected undiscounted payments are estimated at $2 million for 2011, $1 million for each of the years from 2012 through 2014, $2 million for 2015, and $137 million for work after 2015.

From time to time, PPL undertakes remedial action in response to spills or other releases at various on-site and off-site locations, negotiates with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiates with property owners and other third parties alleging impacts from PPL's operations, and undertakes similar actions necessary to resolve environmental matters which arise in the course of normal operations. Based on analyses to date, resolution of these general environmental matters is not expected to have a material adverse impact on PPL's operations.

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in material additional costs for PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

Electric and Magnetic Fields

Concerns have been expressed by some members of the public regarding potential health effects of power frequency EMFs, which are emitted by all devices carrying electricity, including electric transmission and distribution lines and substation equipment. Government officials in the U.S. and the U.K. have reviewed this issue. The U.S. National Institute of Environmental Health Sciences concluded in 2002 that, for most health outcomes, there is no evidence that EMFs cause adverse effects. The agency further noted that there is some epidemiological evidence of an association with childhood leukemia, but that the evidence is difficult to interpret without supporting laboratory evidence. The U.K. National Radiological Protection Board (part of the U.K. Health Protection Agency) concluded in 2004 that, while the research on EMFs does not provide a basis to find that EMFs cause any illness, there is a basis to consider precautionary measures beyond existing exposure guidelines. The Stakeholder Group on Extremely Low Frequency EMF, set up by the U.K. Government, has issued two reports, one in April 2007 and one in June 2010, describing options for reducing public exposure to EMF. The U.K. Government responded to the first report in 2009, agreeing to some of the proposals, including a proposed voluntary code to optimally phase 132 kilovolt overhead lines to reduce public exposure to EMF where it is cost effective to do so. The U.K. Government is currently considering the second report which concentrates on EMF exposure from distribution systems. PPL and its subsidiaries believe the current efforts to determine whether EMFs cause adverse health effects should continue and are taking steps to reduce EMFs, where practical, in the design of new transmission and distribution facilities. PPL and its subsidiaries are unable to predict what effect, if any, the EMF issue might have on their operations and facilities either in the U.S. or the U.K., and the associated cost, or what, if any, liabilities they might incur related to the EMF issue.

Environmental Matters - WPD *(PPL)*

WPD's distribution businesses are subject to environmental regulatory and statutory requirements. PPL believes that WPD has taken and continues to take measures to comply with the applicable laws and governmental regulations for the protection of the environment.

The U.K. Government has implemented a project to alleviate the impact of flooding on the U.K. utility infrastructure, including major electricity substations. WPD has agreed with the Ofgem to spend $46 million on flood prevention, which will be recovered through rates during the five-year period commencing April 2010. WPD is currently liaising on site-specific proposals with local offices of a U.K. Government agency.

U.K. legislation has been passed that imposes a duty on certain companies, including WPD, to report on climate change adaptation. The first information request was received by WPD in March 2010 and submissions for all four distribution network operators were made in June 2011. WPD has worked with other U.K. electricity network operators to undertake research with the internationally recognized U.K. Met Office (the national weather service) and to report using common agreed methodology.

There are no other material legal or administrative proceedings pending against or related to WPD with respect to environmental matters. See "Electric and Magnetic Fields," above, for a discussion of EMFs.

Other

Nuclear Insurance *(PPL and PPL Energy Supply)*

PPL Susquehanna is a member of certain insurance programs that provide coverage for property damage to members' nuclear generating plants. Facilities at the Susquehanna plant are insured against property damage losses up to $2.75 billion under these programs. PPL Susquehanna is also a member of an insurance program that provides insurance coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the property and replacement power insurance programs, PPL Susquehanna could be assessed retroactive premiums in the event of the insurers' adverse loss experience. At June 30, 2011, this maximum assessment was $44 million.

In the event of a nuclear incident at the Susquehanna plant, PPL Susquehanna's public liability for claims resulting from such incident would be limited to $12.6 billion under provisions of The Price-Anderson Act Amendments under the Energy Policy Act of 2005. PPL Susquehanna is protected against this liability by a combination of commercial insurance and an industry assessment program.

In the event of a nuclear incident at any of the reactors covered by The Price-Anderson Act Amendments under the Energy Policy Act of 2005, PPL Susquehanna could be assessed up to $235 million per incident, payable at $35 million per year.

At June 30, 2011, the property, replacement power and nuclear incident insurers maintained an A.M. Best financial strength rating of A ("Excellent").

Employee Relations *(PPL, LKE and KU)*

In July 2011, KU and its employees represented by the United Steelworkers of America agreed to a six-month extension of their current collective bargaining agreement, previously scheduled to expire in August 2011, which extension includes a 3% wage increase consistent with market conditions through the new expiration date. In July 2011, KU and its employees represented by IBEW Local 2100 completed annual reopener negotiations and agreed to a 3% wage increase consistent with market conditions.

Guarantees and Other Assurances

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

In the normal course of business, PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries enter.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(PPL, PPL Energy Supply and LKE)

The table below details guarantees provided as of June 30, 2011. The total recorded liability at June 30, 2011 and December 31, 2010, was $16 million and $14 million for PPL and $11 million for both periods for LKE. Other than as noted in the descriptions for "WPD guarantee of pension and other obligations of unconsolidated entities," the probability of expected payment/performance under each of these guarantees is remote.

	Exposure at June 30, 2011 (a)	Expiration Date
PPL		
Indemnifications for sale of PPL Gas Utilities	$ 300 (b)	
Indemnifications related to the WPD Midlands acquisition	(c)	
WPD indemnifications for entities in liquidation and sales of assets	297 (d)	2013 - 2018
WPD guarantee of pension and other obligations of unconsolidated entities	68 (e)	2015
Tax indemnification related to unconsolidated WPD affiliates	8 (f)	2012

	Exposure at June 30, 2011 (a)	Expiration Date
PPL Energy Supply (g)		
Letters of credit issued on behalf of affiliates	20 (h)	2011 - 2014
Retrospective premiums under nuclear insurance programs	44 (i)	
Nuclear claims assessment under The Price-Anderson Act Amendments under The Energy Policy Act of 2005	235 (j)	
Indemnifications for sales of assets	338 (k)	2012 - 2025
Indemnification to operators of jointly owned facilities	6 (l)	
Guarantee of a portion of a divested unconsolidated entity's debt	22 (m)	2018
LKE (n)		
Indemnification of lease termination and other divestitures	301 (o)	2021 - 2023

(a) Represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee.

(b) PPL has provided indemnification to the purchaser of PPL Gas Utilities and Penn Fuel Propane, LLC for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including certain pre-closing unknown environmental liabilities relating to former manufactured gas plant properties or off-site disposal sites, if any, outside of Pennsylvania. The indemnification provisions for most representations and warranties, including tax and environmental matters, are capped at $45 million, in the aggregate, and are triggered (i) only if the individual claim exceeds $50,000, and (ii) only if, and only to the extent that, in the aggregate, total claims exceed $4.5 million. The indemnification provisions for most representations and warranties expired on September 30, 2009 without any claims having been made. Certain representations and warranties, including those having to do with transaction authorization and title, survive indefinitely, are capped at the purchase price and are not subject to the above threshold or deductible. The indemnification provision for the tax matters representations survives for the duration of the applicable statute of limitations, and the indemnification provision for the environmental matters representations survives for a period of three years after the transaction closing. The indemnification relating to unknown environmental liabilities for manufactured gas plants and disposal sites outside of Pennsylvania could survive more than three years, but only with respect to applicable property or sites identified by the purchaser prior to the third anniversary of the transaction closing. The indemnification for covenants survives until the applicable covenant is performed and is not subject to any cap.

(c) WPD Midlands Holdings Limited (formerly Central Networks Limited) had agreed prior to the acquisition to indemnify certain former directors of a Turkish entity in which WPD Midlands Holdings Limited previously owned an interest for any liabilities that may arise as a result of an investigation by Turkish tax authorities, and PPL WEM has received a cross-indemnity from E.ON AG with respect to these indemnification obligations. Additionally, PPL subsidiaries agreed to provide indemnifications to subsidiaries of E.ON AG for certain liabilities relating to properties and assets owned by affiliates of E.ON AG that were or are to be transferred to WPD Midlands in connection with the acquisition. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped by and there is no expiration date in the transaction documents.

(d) In connection with the liquidation of wholly owned subsidiaries that have been deconsolidated upon turning the entities over to the liquidators, certain affiliates of PPL Global have agreed to indemnify the liquidators, directors and/or the entities themselves for any liabilities or expenses arising during the liquidation process, including liabilities and expenses of the entities placed into liquidation. In some cases, the indemnifications are limited to a maximum amount that is based on distributions made from the subsidiary to its parent either prior or subsequent to being placed into liquidation. In other cases, the maximum amount of the indemnifications is not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases in which the agreements provide for a specific limit on the amount of the indemnification, and the expiration date was based on an estimate of the dissolution date of the entities.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters. In addition, in connection with certain of these sales, WPD and its affiliates have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Finally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

(e) As a result of the privatization of the utility industry in the U.K., certain electric associations' roles and responsibilities were discontinued or modified. As a result, certain obligations, primarily pension-related, associated with these organizations have been guaranteed by the participating members. Costs are allocated to the members based on predetermined percentages as outlined in specific agreements. However, if a member becomes insolvent, costs can be reallocated to and are guaranteed by the remaining members. At June 30, 2011, WPD has recorded an estimated discounted liability based on its current allocated percentage of the total expected costs for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements. Therefore, they have been estimated based on the types of obligations.

(f) Two WPD unconsolidated affiliates were refinanced during 2005. Under the terms of the refinancing, WPD has indemnified the lender against certain tax and other liabilities.

(g) Other than the letters of credit, all guarantees of PPL Energy Supply, on a consolidated basis, also apply to PPL on a consolidated basis for financial reporting purposes.

(h) Standby letter of credit arrangements under PPL Energy Supply's credit facilities for the purposes of protecting various third parties against nonperformance by PPL. This is not a guarantee by PPL on a consolidated basis.

(i) PPL Susquehanna is contingently obligated to pay this amount related to potential retrospective premiums that could be assessed under its nuclear insurance programs. See "Nuclear Insurance," above for additional information.

(j) This is the maximum amount PPL Susquehanna could be assessed for each incident at any of the nuclear reactors covered by this Act. See "Nuclear Insurance," above for additional information.

(k) PPL Energy Supply's maximum exposure with respect to certain indemnifications and the expiration of the indemnifications cannot be estimated because, in the case of certain indemnification provisions, the maximum potential liability is not capped by the transaction documents and the expiration date is based on the applicable statute of limitations. The exposure and expiration dates noted are only for those cases in which the agreements provide for specific limits.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchaser of the Long Island generation business for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including liabilities relating to certain renewable energy facilities which were previously owned by one of the PPL subsidiaries sold in the transaction but which were unrelated to the Long Island generation business. The indemnification provisions are subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of most representations and warranties.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchasers of the Maine hydroelectric facilities for damages arising out of any breach of the representations, warranties and covenants under the respective transaction agreements and for damages arising out of certain other matters, including liabilities of the PPL Energy Supply subsidiary relating to the pre-closing ownership or operation of those hydroelectric facilities. The indemnification obligations are subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of representations and warranties. The indemnification provisions for certain representations and warranties expired in the second quarter of 2011.

Subsidiaries of PPL Energy Supply have agreed to provide indemnification to the purchasers of certain non-core generation facilities sold in March 2011 (see Note 8 for additional information) for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreements and for damages arising out of certain other matters relating to the facilities that were the subject of the transaction, including certain reduced capacity payments (if any) at one of the facilities in the event specified PJM rule changes are proposed and become effective. The indemnification provisions are subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of most representations and warranties.

(l) In December 2007, a subsidiary of PPL Energy Supply executed revised owners agreements for two jointly owned facilities, the Keystone and Conemaugh generating stations. The agreements require that in the event of any default by an owner, the other owners fund contributions for the operation of the generating stations, based upon their ownership percentages. The maximum obligation among all owners, for each station, is currently $20 million. The non-defaulting owners, who make up the defaulting owner's obligations, are entitled to the generation entitlement of the defaulting owner, based upon their ownership percentage. The agreements do not have an expiration date.

(m) A PPL Energy Supply subsidiary owned a one-third equity interest in Safe Harbor Water Power Corporation (Safe Harbor) that was sold in March 2011. Beginning in 2008, PPL Energy Supply guaranteed one-third of any amounts payable with respect to certain senior notes issued by Safe Harbor. Under the terms of the sale agreement, PPL Energy Supply continues to guarantee the portion of Safe Harbor's debt, but received a cross-indemnity from the purchaser in the event PPL Energy Supply is required to make a payment under the guarantee. Exposure noted reflects principal only. See Note 8 for additional information on the sale of this interest.

(n) All guarantees of LKE, on a consolidated basis, also apply to PPL on a consolidated basis for financial reporting purposes.

(o) LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of $200 million. Certain items such as non-excluded government fines and penalties fall outside the cumulative cap. Another guarantee with a maximum exposure of $100 million covering other indemnifications expires in 2023. Certain matters are currently under discussion among the parties, including one matter currently in arbitration and a further matter for which LKE is contesting the applicability of the indemnification requirement, the outcomes of which cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum amount limits range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. No additional material loss is anticipated by reason of such indemnification.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU and their subsidiaries provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, PPL and its subsidiaries have not made any significant payments with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage requires a maximum $4 million deductible per occurrence and provides maximum aggregate coverage of $200 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

11 . Related Party Transactions

PLR Contracts/Purchase of Accounts Receivable *(PPL Energy Supply and PPL Electric)*

PPL Electric holds competitive solicitations for PLR generation supply. See Note 10 for additional information on the solicitations. PPL EnergyPlus has been awarded a portion of the supply. PPL Electric's purchases from PPL EnergyPlus totaled $4 million and $10 million for the three and six months ended June 30, 2011 and $64 million and $179 million during the same periods in 2010, and are included in the Statements of Income as "Wholesale energy marketing to affiliate" by PPL Energy Supply and as "Energy purchases from affiliate" by PPL Electric.

Under the standard Supply Master Agreement for the bid solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. In no instance is PPL Electric required to post collateral to suppliers under these supply contracts. PPL EnergyPlus is required to post collateral with PPL Electric: (a) when the market price of electricity to be delivered by PPL EnergyPlus exceeds the contract price for the forecasted quantity of electricity to be delivered and (b) this market price exposure exceeds a contractual credit limit. Based on the current credit rating of PPL Energy Supply, as guarantor, this credit limit is $35 million at June 30, 2011.

PPL Electric's customers may elect to procure generation supply from an alternative supplier. See Note 2 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including PPL EnergyPlus.

At June 30, 2011, PPL Energy Supply had a net credit exposure of $17 million to PPL Electric from its commitment as a PLR supplier and from the sale of its accounts receivable to PPL Electric.

Wholesale Sales and Purchases *(LG&E and KU)*

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail native load. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail native load and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are recorded by each company as intercompany wholesale sales and purchases in the Statements of Income as 'Electric revenue from affiliate" and "Energy purchases from affiliate" and are recorded by each company at a price equal to the seller's fuel cost. Savings realized from such intercompany electricity purchasing, instead of generating from their own higher cost units or purchasing from the market, are shared equally between the two companies. The volume of energy each company has to sell to the other is dependent on its native load needs and its available generation.

Intercompany electric revenues and energy purchases for the periods ended June 30 were as follows.

	Three Months		Six Months	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
LG&E sales and KU purchases	$ 17	$ 23	$ 44	$ 48
LG&E purchases and KU sales	7	3	18	10

Allocations of PPL Services Costs *(PPL Energy Supply, PPL Electric and LKE)*

PPL Services provides corporate functions such as financial, legal, human resources and information technology services. PPL Services charges the respective PPL subsidiaries for the cost of certain services when they can be specifically identified. The cost of services that is not directly charged to PPL subsidiaries is allocated to applicable subsidiaries based on an average of the subsidiaries' relative invested capital, operation and maintenance expenses and number of employees. PPL Services allocated the following amounts, which PPL management believes are reasonable, including amounts applied to accounts that are further distributed between capital and expense for the periods ended June 30.

	Three Months		Six Months	
	2011	2010	2011	2010
PPL Energy Supply	$ 44	$ 56	$ 94	$ 115
PPL Electric	35	32	74	65
LKE	4	n/a	9	n/a

Intercompany Billings *(LG&E and KU)*

LG&E and KU Services Company provides LG&E and KU with a variety of centralized administrative, management and support services. Associated charges include payroll taxes paid by LG&E and KU Services Company on behalf of LG&E and KU, labor and burdens of LG&E and KU Services Company employees performing services for LG&E and KU, coal purchases and other vouchers paid by LG&E and KU Services Company on behalf of LG&E and KU. The cost of these services is directly charged to the company, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and/or other statistical information. These costs are charged on an actual cost basis.

In addition, LG&E and KU provide services to each other and to LG&E and KU Services Company. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LG&E and KU Services Company.

LG&E and KU Services Company allocated these amounts, which LKE management believes are reasonable, including amounts that are further distributed between capital and expense for the periods ended June 30. Intercompany billings for the periods ended June 30 were as follows.

	Three Months		Six Months	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
LG&E and KU Services Company billing to LG&E	$ 50	$ 59	$ 83	$ 110
LG&E and KU Services Company billing to KU	55	67	104	117
LG&E billings to KU	29	12	56	19
KU billings to LG&E		1		1

Intercompany Borrowings

(PPL Energy Supply and PPL Electric)

A PPL Energy Supply subsidiary holds revolving lines of credit from certain affiliates. At June 30, 2011, $37 million was outstanding and is shown on the Balance Sheet as "Note receivable from affiliate." The corresponding note payable is held by a PPL Electric subsidiary and shown on the Balance Sheet as "Note payable to affiliate." There was no balance outstanding at December 31, 2010. The interest rate on the borrowings was 1.94% at June 30, 2011. Interest on the borrowings was not significant for the three and six months ended June 30, 2011 and 2010.

(LKE)

After PPL's acquisition of LKE in November 2010, LKE held a note receivable from a PPL affiliate. At June 30, 2011, $90 million was outstanding compared with $61 million at December 31, 2010. The interest rate on the outstanding borrowing at June 30, 2011 was 2.19%. During the three and six months ended June 30, 2011, interest income on this note was not significant.

LKE maintains a $300 million revolving line of credit with a PPL Energy Supply subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. There was no balance outstanding at June 30, 2011 or December 31, 2010.

Interest expense incurred on the revolving line of credit with the PPL Energy Supply subsidiary was not significant for the three and six months ended June 30, 2011.

Prior to PPL's acquisition of LKE in November 2010, LKE had revolving credit facilities and several short-term and long-term loans with its former E.ON AG affiliates. During the three and six months ended June 30, 2010, LKE incurred interest expense on these debt arrangements of $39 million and $79 million which is included in the Statements of Income as "Interest Expense with Affiliate." The consolidated debt had a weighted-average interest rate of 2.35% at June 30, 2010. Any such borrowings were repaid in 2010 prior to or at the time of the acquisition by PPL.

(LG&E)

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to $400 million at market-based rates (based on highly-rated commercial paper issues). At June 30, 2011, there was no balance outstanding. At December 31, 2010, $12 million was outstanding. The interest rate for the period ended December 31, 2010 was 0.25%.

Interest expense incurred on the money pool agreement with LKE and/or KU was not significant for the three and six months ended June 30, 2011 and 2010.

Prior to PPL's acquisition of LKE in November 2010, LG&E had long-term loans from its former E.ON AG affiliates. During the three and six months ended June 30, 2010, LG&E incurred interest expense related to these debt arrangements of $7 million and $14 million. The long-term loans had a weighted-average interest rate of 5.49% at June 30, 2010. Any such borrowings were repaid in 2010 prior to or at the time of the acquisition by PPL.

(KU)

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to $400 million at market-based rates (based on highly rated commercial paper issues). At June 30, 2011, there was no balance outstanding. At December 31, 2010, $10 million was outstanding. The interest rate for the period ended December 31, 2010 was 0.25%.

Interest expense incurred on the money pool agreement with LKE and/or LG&E was not significant for the three and six months ended June 30, 2011 and 2010.

Prior to PPL's acquisition of LKE in November 2010, KU had long-term loans from its former E.ON AG affiliates. During the three and six months ended June 30, 2010, KU incurred interest expense on these debt arrangements of $19 million and $37 million. The long-term loans had a weighted-average interest rate of 5.50% at June 30, 2010. Any such borrowings were repaid in 2010 prior to or at the time of the acquisition by PPL.

(PPL Energy Supply)

Trademark Royalties

A PPL subsidiary owns PPL trademarks and bills certain affiliates for their use. PPL Energy Supply was allocated $10 million and $20 million of this license fee for the three and six months ended June 30, 2011 and 2010. These allocations are primarily included in "Other operation and maintenance" on the Statements of Income.

Distribution of Interest in PPL Global to Parent

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 8 for additional information.

Intercompany Insurance *(PPL Electric)*

PPL Power Insurance Ltd. (PPL Power Insurance) is a subsidiary of PPL that provides insurance coverage to PPL and its subsidiaries for property damage, general/public liability and workers' compensation.

Due to damages resulting primarily from certain storms that occurred in May 2011, PPL Electric has exceeded its deductible for the 2011 policy year. Probable recoveries on insurance claims with PPL Power Insurance of $15 million were recorded during the three and six months ended June 30, 2011, of which $9 million was included in "Other operation and maintenance" on the Statements of Income and the remainder was recorded in PP&E on the Balance Sheet.

12 . Other Income (Expense) - net

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The breakdown of "Other Income (Expense) - net" for the periods ended June 30 was:

	Three Months		Six Months	
	2011	2010	2011	2010
PPL				
Other Income				
Earnings on securities in NDT funds	$ 3	$ 5	$ 18	$ 11
Interest income	2		4	1
AFUDC	2	1	3	2
Net hedge gains associated with the 2011 Bridge Facility	62		55	
Miscellaneous - Domestic	4	3	7	4
Miscellaneous - International	1	1	1	1
Total Other Income	74	10	88	19

	Three Months 2011	Three Months 2010	Six Months 2011	Six Months 2010
Other Expense				
Economic foreign currency exchange contracts	(2)			(2)
Charitable contributions	2	1	5	2
LKE other acquisition-related costs		7		7
WPD Midlands other acquisition-related costs	26		36	
Foreign currency loss on 2011 Bridge Facility	58		58	
U.K. stamp duty tax	21		21	
Miscellaneous - Domestic	1	1	4	3
Miscellaneous - International	2	1	3	1
Total Other Expense	108	10	127	11
Other Income (Expense) - net	$ (34)	$	$ (39)	$ 8
PPL Energy Supply				
Other Income				
Earnings on securities in NDT funds	$ 3	$ 5	$ 18	$ 11
Miscellaneous	3	2	5	3
Total Other Income	6	7	23	14
Other Expense				
Miscellaneous	2	2	5	3
Total Other Expense	2	2	5	3
Other Income (Expense) - net	$ 4	$ 5	$ 18	$ 11

	Three Months 2011 Successor	Three Months 2010 Predecessor	Six Months 2011 Successor	Six Months 2010 Predecessor
LKE				
Other Income				
Equity in earnings of unconsolidated affiliate			$ 1	$ 2
Miscellaneous	$ 1		2	3
Total Other Income	1		3	5
Other Expense				
Derivative losses		$ 10		11
Equity in loss of unconsolidated affiliate		1		
Charitable contributions	1	1	2	3
Miscellaneous		2	2	5
Total Other Expense	1	14	4	19
Other Income (Expense) - net	$	$ (14)	$ (1)	$ (14)
LG&E				
Other Income				
Miscellaneous	$ 1		$ 1	
Total Other Income	1		1	
Other Expense				
Derivative losses		$ 10		$ 11
Charitable contributions			1	1
Total Other Expense		10	1	12
Other Income (Expense) - net	$ 1	$ (10)	$	$ (12)

The components of "Other Income (Expense) - net" for the three and six months ended June 30, 2011 and 2010 for PPL Electric and KU are not significant.

13 . Fair Value Measurements and Credit Concentration

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). PPL and its subsidiaries use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	June 30, 2011				December 31, 2010			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	$ 1,269	$ 1,269			$ 925	$ 925		
Short-term investments - municipal debt securities					163	163		
Restricted cash and cash equivalents (a)	88	88			66	66		
Price risk management assets:								
Energy commodities	2,113	3	$ 2,063	$ 47	2,503		$ 2,452	$ 51
Interest rate swaps	6		6		15		15	
Foreign currency exchange contracts	4		4		11		11	
Cross-currency swaps	9		9		44		44	
Total price risk management assets	2,132	3	2,082	47	2,573		2,522	51
NDT funds:								
Cash and cash equivalents	10	10			10	10		
Equity securities								
U.S. large-cap	304	211	93		303	207	96	
U.S. mid/small-cap	124	91	33		119	89	30	
Debt securities								
U.S. Treasury	79	79			75	75		
U.S. government sponsored agency	10		10		7		7	
Municipality	80		80		69		69	
Investment-grade corporate	37		37		33		33	
Other	3		3		1		1	
Receivables (payables), net	1	(2)	3		1	(1)	2	
Total NDT funds	648	389	259		618	380	238	
Auction rate securities (b)	25			25	25			25
Total assets	$ 4,162	$ 1,749	$ 2,341	$ 72	$ 4,370	$ 1,534	$ 2,760	$ 76
Liabilities								
Price risk management liabilities:								
Energy commodities	$ 1,204	$ 3	$ 1,180	$ 21	$ 1,552		$ 1,498	$ 54
Interest rate swaps	51		51		53		53	
Cross-currency swaps	5		5		9		9	
Total price risk management liabilities	$ 1,260	$ 3	$ 1,236	$ 21	$ 1,614		$ 1,560	$ 54
PPL Energy Supply								
Assets								
Cash and cash equivalents	$ 422	$ 422			$ 661	$ 661		
Restricted cash and cash equivalents (a)	31	31			26	26		
Price risk management assets:								
Energy commodities	2,112	3	$ 2,062	$ 47	2,503		$ 2,452	$ 51
Foreign currency exchange contracts					11		11	
Cross-currency swaps					44		44	
Total price risk management assets	2,112	3	2,062	47	2,558		2,507	51
NDT funds:								
Cash and cash equivalents	10	10			10	10		
Equity securities								
U.S. large-cap	304	211	93		303	207	96	
U.S. mid/small-cap	124	91	33		119	89	30	
Debt securities								
U.S. Treasury	79	79			75	75		
U.S. government sponsored agency	10		10		7		7	
Municipality	80		80		69		69	
Investment-grade corporate	37		37		33		33	
Other	3		3		1		1	
Receivables (payables), net	1	(2)	3		1	(1)	2	
Total NDT funds	648	389	259		618	380	238	
Auction rate securities (b)	20			20	20			20
Total assets	$ 3,233	$ 845	$ 2,321	$ 67	$ 3,883	$ 1,067	$ 2,745	$ 71
Liabilities								
Price risk management liabilities:								
Energy commodities	$ 1,201	$ 3	$ 1,177	$ 21	$ 1,541		$ 1,487	$ 54
Cross-currency swaps					9		9	
Total price risk management liabilities	$ 1,201	$ 3	$ 1,177	$ 21	$ 1,550		$ 1,496	$ 54

	June 30, 2011				December 31, 2010			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL Electric								
Assets								
Cash and cash equivalents	$ 4	$ 4			$ 204	$ 204		
Restricted cash and cash equivalents (c)	14	14			14	14		
Total assets	$ 18	$ 18			$ 218	$ 218		
LKE								
Assets								
Cash and cash equivalents	$ 56	$ 56			$ 11	$ 11		
Short-term investments - municipal debt securities					163	163		
Restricted cash and cash equivalents (c)	28	28			23	23		
Price risk management assets - Energy commodities (d)	1		$ 1					
Total assets	$ 85	$ 84	$ 1		$ 197	$ 197		
Liabilities								
Price risk management liabilities:								
Energy commodities (e)	$ 3		$ 3		$ 2		$ 2	
Interest rate swaps (f)	35		35		34		34	
Total liabilities	$ 38		$ 38		$ 36		$ 36	
LG&E								
Assets								
Cash and cash equivalents	$ 41	$ 41			$ 2	$ 2		
Short-term investments - municipal debt securities					163	163		
Restricted cash and cash equivalents (c)	27	27			22	22		
Price risk management assets - Energy commodities (d)	1		$ 1					
Total assets	$ 69	$ 68	$ 1		$ 187	$ 187		
Liabilities								
Price risk management liabilities:								
Energy commodities (e)	$ 3		$ 3		$ 2		$ 2	
Interest rate swaps (f)	35		35		34		34	
Total liabilities	$ 38		$ 38		$ 36		$ 36	
KU								
Assets								
Cash and cash equivalents	$ 7	$ 7			$ 3	$ 3		
Restricted cash and cash equivalents (c)	1	1			1	1		
Total assets	$ 8	$ 8			$ 4	$ 4		

(a) Current portion is included in "Restricted cash and cash equivalents" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(b) Included in "Other investments" on the Balance Sheets.
(c) Current portion is included in "Other current assets" on the Balance Sheets. Such amounts were insignificant at June 30, 2011 and December 31, 2010. The long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(d) Included in "Other current assets" on the Balance Sheets.
(e) Included in "Other current liabilities" on the Balance Sheets.
(f) Current portion is included in "Other current liabilities" on the Balance Sheets. The long-term portion is included in "Price risk management liabilities" on the Balance Sheets.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended June 30, 2011 is as follows.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Three Months			Six Months		
	Energy Commodities, net	Auction Rate Securities	Total	Energy Commodities, net	Auction Rate Securities	Total
PPL						
Balance at beginning of period	$ 32	$ 25	$ 57	$ (3)	$ 25	$ 22
Total realized/unrealized gains (losses)						
Included in earnings	(5)		(5)	(4)		(4)
Included in OCI (a)	3		3	4		4
Purchases				2		2
Sales	(1)		(1)	(4)		(4)
Settlements	3		3	25		25
Transfers out of Level 3	(6)		(6)	6		6
Balance at end of period	$ 26	$ 25	$ 51	$ 26	$ 25	$ 51
PPL Energy Supply						
Balance at beginning of period	$ 32	$ 20	$ 52	$ (3)	$ 20	$ 17
Total realized/unrealized gains (losses)						
Included in earnings	(5)		(5)	(4)		(4)
Included in OCI (a)	3		3	4		4
Purchases				2		2
Sales	(1)		(1)	(4)		(4)
Settlements	3		3	25		25
Transfers out of Level 3	(6)		(6)	6		6
Balance at end of period	$ 26	$ 20	$ 46	$ 26	$ 20	$ 46

(a) Included in "Qualifying derivatives" on the Statements of Comprehensive Income.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended June 30, 2010 is as follows.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Three Months			Six Months		
	Energy Commodities, net	Auction Rate Securities	Total	Energy Commodities, net	Auction Rate Securities	Total
PPL						
Balance at beginning of period	$ 51	$ 25	$ 76	$ 107	$ 25	$ 132
Total realized/unrealized gains (losses)						
Included in earnings	(7)		(7)	(68)		(68)
Included in OCI (a)	5		5	8		8
Net purchases, sales, issuances and settlements (b)	(4)		(4)	1		1
Transfers into Level 3				(2)		(2)
Transfers out of Level 3	3		3	2		2
Balance at end of period	$ 48	$ 25	$ 73	$ 48	$ 25	$ 73
PPL Energy Supply						
Balance at beginning of period	$ 51	$ 20	$ 71	$ 107	$ 20	$ 127
Total realized/unrealized gains (losses)						
Included in earnings	(7)		(7)	(68)		(68)
Included in OCI (a)	5		5	8		8
Net purchases, sales, issuances and settlements (b)	(4)		(4)	1		1
Transfers into Level 3				(2)		(2)
Transfers out of Level 3	3		3	2		2
Balance at end of period	$ 48	$ 20	$ 68	$ 48	$ 20	$ 68

(a) Included in "Qualifying derivatives" on the Statements of Comprehensive Income.
(b) Accounting guidance effective January 1, 2011 requires purchase, sale, issuance and settlement transactions within Level 3 to be presented on a gross basis. The transactions in 2010 are reported on a combined basis.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended June 30 is as follows.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Energy Commodities, net			
	Three Months		Six Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
LKE				
Balance at beginning of period		$ 63		$ 75
Total realized/unrealized gains (losses)				
Included in discontinued operations				4
Settlements		(18)		(34)
Balance at end of period		$ 45		$ 45

Net gains and losses on assets and liabilities classified as Level 3 and included in earnings for the periods ended June 30 are reported in the Statements of Income as follows.

	Three Months							
	Energy Commodities, net							
	Unregulated Retail Electric and Gas		Wholesale Energy Marketing		Net Energy Trading Margins		Energy Purchases	
	2011	2010	2011	2010	2011	2010	2011	2010
PPL and PPL Energy Supply								
Total gains (losses) included in earnings	$ 4	$ 1	$ (5)		$ 2	$ (3)	$ (6)	$ (5)
Change in unrealized gains (losses) relating to positions still held at the reporting date	4	(1)	(7)			(2)	(2)	(6)

	Six Months							
	Energy Commodities, net							
	Unregulated Retail Electric and Gas		Wholesale Energy Marketing		Net Energy Trading Margins		Energy Purchases	
	2011	2010	2011	2010	2011	2010	2011	2010
PPL and PPL Energy Supply								
Total gains (losses) included in earnings	$ 5	$ 12	$ (4)	$ 13	$ (3)	$ (2)	$ (2)	$ (91)
Change in unrealized gains (losses) relating to positions still held at the reporting date	5	10	(6)	5		(3)	17	(81)

(*PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

PPL and its subsidiaries recognize transfers between levels at end-of-reporting-period values.

Price Risk Management Assets/Liabilities - Energy Commodities

Energy commodity contracts are generally valued using the income approach, except for exchange-traded derivative gas and oil contracts, which are valued using the market approach and are classified as Level 1. When observable inputs are used to measure all or most of the value of a contract, the contract is classified as Level 2. Over-the-counter (OTC) contracts are valued using quotes obtained from an exchange, binding and non-binding broker quotes, prices posted by ISOs or published tariff rates. Furthermore, PPL and its subsidiaries obtain independent quotes from the market to validate the forward price curves. OTC contracts include forwards, swaps, options and structured deals for electricity, gas, oil and/or emission allowances and may be offset with similar positions in exchange-traded markets. To the extent possible, fair value measurements utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. For example, the fair value of a structured deal that delivers power to an illiquid delivery point may be measured by valuing the nearest liquid trading point plus the value of the basis between the two points. The basis input may be from market quotes, FTR prices or historical prices.

When unobservable inputs are significant to the fair value measurement, a contract is classified as Level 3. Additionally, Level 2 and Level 3 fair value measurements include adjustments for credit risk based on PPL's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). PPL's credit department assesses all reasonably available market information and probabilities of default used to calculate the credit adjustment. PPL assumes that observable market prices include sufficient adjustments for liquidity and modeling risks, but for Level 3 fair value measurements, PPL also assesses the need for additional adjustments for liquidity or modeling risks. The contracts classified as Level 3 represent contracts for which the delivery dates are beyond the dates for which independent prices are available or for certain power basis positions, which PPL generally values using historical settlement prices to project forward prices.

In certain instances, energy commodity contracts are transferred between Level 2 and Level 3. The primary reasons for the transfers during 2011 and 2010 were changes in the availability of market information and changes in the significance of the unobservable portion of the contract. As the delivery period of a contract becomes closer, market information may become available. When this occurs, the model's unobservable inputs are replaced with observable market information.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Exchange Contracts/Cross-Currency Swaps

To manage their interest rate risk, PPL and its subsidiaries generally use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage their foreign currency exchange risk, PPL and its subsidiaries generally use foreign currency exchange contracts such as forwards and options and cross-currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts. PPL and its subsidiaries use an income approach to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP and Euro), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, PPL and its subsidiaries cannot practicably obtain market information to value credit risk and therefore rely on their own models. These models use projected probabilities of default based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3.

NDT Funds *(PPL and PPL Energy Supply)*

PPL and PPL Energy Supply generally use the market approach to measure the fair value of equity securities held in the NDT funds.

- The fair value measurements of equity securities classified as Level 1 are based on quoted prices in active markets and are comprised of securities that are representative of the Wilshire 5000 index, which is invested in approximately 70% large-cap stocks and 30% mid/small-cap stocks.

- Investments in commingled equity funds are classified as Level 2 and represent securities that track the S&P 500 index and the Wilshire 4500 index. These fair value measurements are based on firm quotes of net asset values per share, which are not obtained from a quoted price in an active market.

Debt securities are generally measured using a market approach, including the use of matrix pricing. Common inputs include reported trades, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as benchmark yields, credit valuation adjustments, reference data from market research publications, monthly payment data, collateral performance and new issue data.

The debt securities held by the NDT funds at June 30, 2011 have a weighted-average coupon of 4.55% and a weighted-average duration of five years.

Auction Rate Securities *(PPL and PPL Energy Supply)*

PPL's and PPL Energy Supply's auction rate securities include Federal Family Education Loan Program guaranteed student loan revenue bonds, as well as various municipal bond issues. At June 30, 2011, contractual maturities for these auction rate securities were a weighted average of approximately 24 years. PPL and PPL Energy Supply do not have significant exposure to realize losses on these securities; however, auction rate securities are classified as Level 3 because failed auctions limit the amount of observable market data that is available for measuring the fair value of these securities.

The fair value of auction rate securities is estimated using an income approach with inputs for the underlying structure and credit quality of each security; the present value of future interest payments, estimated based on forward rates of the SIFMA Index, and principal payments discounted using interest rates for bonds with a credit rating and remaining term to maturity similar to the stated maturity of the auction rate securities; and the impact of auction failures or redemption at par.

Nonrecurring Fair Value Measurements

(PPL and PPL Energy Supply)

The following nonrecurring fair value measurements occurred during the reporting periods, resulting in asset impairments.

	Carrying Amount (a)	Fair Value Measurements Using		Loss (b)
		Level 2	Level 3	
Sulfur dioxide emission allowances (c):				
March 31, 2011	$ 1			$ 1
June 30, 2010	11		$ 3	8
March 31, 2010	13		10	3
RECs (c):				
June 30, 2011	2	$ 1		1
March 31, 2011	3			3

(a) Represents carrying value before fair value measurement.
(b) Losses on sulfur dioxide emission allowances and RECs were recorded in the Supply segment and included in "Other operation and maintenance" on the Statements of Income.
(c) Current and long-term sulfur dioxide emission allowances and RECs are included in "Other intangibles" in their respective areas on the Balance Sheets.

Sulfur Dioxide Emission Allowances

Due to declines in market prices, PPL Energy Supply assessed the recoverability of sulfur dioxide emission allowances not expected to be consumed. When available, observable market prices were used to value the sulfur dioxide emission allowances. When observable market prices were not available, fair value was modeled using prices from observable transactions and appropriate discount rates. The modeled values were significant to the overall fair value measurement, resulting in the Level 3 classification.

RECs

Due to declines in forecasted full-requirement obligations in certain markets as well as declines in market prices, PPL Energy Supply assessed the recoverability of certain RECs not expected to be used. Observable market prices (Level 2) were used to value the RECs.

Financial Instruments Not Recorded at Fair Value *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

The carrying amounts of contract adjustment payments related to the 2010 Purchase Contract component of the 2010 Equity Units, the 2011 Purchase Contract component of the 2011 Equity Units, and long-term debt on the Balance Sheets and their estimated fair value are set forth below. The fair value of these instruments was estimated using an income approach by discounting future cash flows at estimated current cost of funding rates. The effect of third-party credit enhancements is not included in the fair value measurement.

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
PPL				
Contract adjustment payments (a)	$ 245	$ 247	$ 146	$ 148
Long-term debt	18,034	18,447	12,663	12,868
PPL Energy Supply				
Long-term debt	3,275	3,582	5,589	5,919
PPL Electric				
Long-term debt	1,472	1,608	1,472	1,578
LKE				
Long-term debt	3,825	3,728	3,825	3,607
LG&E				
Long-term debt	1,112	1,094	1,112	1,069
KU				
Long-term debt	1,841	1,790	1,841	1,728

(a) Reflected in current and long-term other liabilities on the Balance Sheets.

The carrying value of short-term debt (including notes between affiliates), when outstanding, represents or approximates fair value due to the variable interest rates associated with the financial instruments.

Credit Concentration Associated with Financial Instruments

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL and its subsidiaries enter into contracts with many entities for the purchase and sale of energy. Many of these contracts qualify for NPNS and as such, the fair value of these contracts is not reflected in the financial statements. However, the fair value of these contracts is considered when committing to new business from a credit perspective. See Note 14 for information on credit policies used by PPL and its subsidiaries to manage credit risk, including master netting arrangements and collateral requirements.

(PPL)

At June 30, 2011, PPL had credit exposure of $2.2 billion from energy trading partners, excluding the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, PPL's credit exposure was reduced to $670 million. The top two counterparties each accounted for 13% of the exposure. Ten counterparties accounted for $441 million, or 66%, of the net exposure. Nine of these counterparties had an investment grade credit rating from S&P or Moody's and accounted for 97% of the top ten exposure. The remaining counterparty has not been rated by S&P or Moody's, but is current on its obligations.

(PPL Energy Supply)

At June 30, 2011, PPL Energy Supply had credit exposure of $2.2 billion from energy trading partners, excluding exposure from related parties and the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, this credit exposure was reduced to $667 million. The top two counterparties each accounted for 13% of the exposure. Ten counterparties accounted for $441 million, or 66%, of the net exposure. Nine of these counterparties had an investment grade credit rating from S&P or Moody's and accounted for 97% of the top ten exposure. The remaining counterparty has not been rated by S&P or Moody's, but is current on its obligations.

(PPL Electric)

At June 30, 2011, PPL Electric had no credit exposure under energy supply contracts (including its supply contracts with PPL EnergyPlus).

(LKE, LG&E and KU)

At June 30, 2011, LKE's, LG&E's and KU's credit exposure was not significant.

14 . Derivative Instruments and Hedging Activities

Risk Management Objectives

(PPL Energy Supply)

As described in Notes 1 and 8, in January 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. Therefore, effective January 2011, PPL Energy Supply is no longer subject to interest rate and foreign currency exchange risk associated with investments in U.K. affiliates.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL has a risk management policy approved by the Board of Directors to manage market risk and counterparty credit risk. The RMC, comprised of senior management and chaired by the Chief Risk Officer, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, VaR analyses, portfolio stress tests, gross margin at risk analyses, sensitivity analyses and daily portfolio reporting, including open positions, determinations of fair value and other risk management metrics. PPL completed its acquisition of LKE in November 2010 and WPD Midlands in April 2011. During the second quarter of 2011, the RMC formally approved the inclusion of LKE's risk programs under the risk management policy. WPD Midlands adhered to the applicable risk management programs, including interest rate and foreign currency exchange programs, from the date of acquisition.

Market risk is the potential loss PPL and its subsidiaries may incur as a result of price changes associated with a particular financial or commodity instrument. PPL and its subsidiaries utilize forward contracts, futures contracts, options, swaps and structured deals such as tolling agreements as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, volumes of full-requirement sales contracts, basis prices, interest rates and/or foreign currency exchange rates. All derivatives are recognized on the Balance Sheets at their fair value, unless they qualify for NPNS.

PPL is exposed to market risk from foreign currency exchange risk associated with its investments in U.K. affiliates.

PPL and PPL Energy Supply are exposed to market risk from:

- commodity price, basis and volumetric risks for energy and energy-related products associated with the sale of electricity from its generating assets and other electricity marketing activities (including full-requirement sales contracts) and the purchase of fuel and fuel-related commodities for generating assets, as well as for proprietary trading activities;
- interest rate and price risk associated with debt used to finance operations, as well as debt and equity securities in NDT funds and defined benefit plans; and
- foreign currency exchange rate risk associated with purchases of equipment in currencies other than U.S. dollars.

PPL and PPL Electric are exposed to market and volumetric risks from PPL Electric's obligation as PLR. The PUC has approved a cost recovery mechanism that allows PPL Electric to pass through to customers the cost associated with fulfilling its PLR obligation. This cost recovery mechanism substantially eliminates PPL Electric's exposure to market risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement supply agreements for its customers. These supply agreements transfer the volumetric risk associated with the PLR obligation to the energy suppliers.

By definition, the regulatory environment that PPL's other regulated entities, LKE (through its subsidiaries LG&E and KU) and WPD, are subject to significantly mitigates market and volumetric risks. Similar to PPL Electric, LG&E's and KU's rates are set to permit the recovery of prudently incurred costs. LG&E and KU primarily utilize forward financial transactions to manage price risk associated with the electricity generated that is not required by end-use customers. WPD does not have supply risks as it is only in the distribution business.

LG&E also utilizes over-the-counter interest rate swaps to limit exposure to market fluctuations on interest expense. WPD utilizes over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from foreign currency exchange rates.

Credit risk is the potential loss PPL and its subsidiaries may incur due to a counterparty's non-performance, including defaults on payments and energy commodity deliveries.

PPL is exposed to credit risk from interest rate and foreign currency derivatives with financial institutions.

PPL and PPL Energy Supply are exposed to credit risk from commodity derivatives with their energy trading partners, which include other energy companies, fuel suppliers and financial institutions.

PPL and PPL Electric are exposed to credit risk from PPL Electric's supply agreements for its PLR obligation.

LKE and LG&E are exposed to credit risk from interest rate derivatives with financial institutions.

The majority of PPL's and its subsidiaries' credit risk stems from PPL subsidiaries' commodity derivatives for multi-year contracts for energy sales and purchases. If PPL Energy Supply's counterparties fail to perform their obligations under such contracts and PPL Energy Supply could not replace the sales or purchases at the same prices as those under the defaulted contracts, PPL Energy Supply would incur financial losses. Those losses would be recognized immediately or through lower revenues or higher costs in future years, depending on the accounting treatment for the defaulted contracts. In the event a supplier of LKE (through its subsidiaries LG&E and KU) or PPL Electric defaults on its obligation, those entities would be required to seek replacement power or replacement fuel in the market. In general, incremental costs incurred by these entities would be recoverable from customers in future rates.

PPL and its subsidiaries have credit policies to manage their credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request the additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade or their exposures exceed an established credit limit. See Note 13 for credit concentration associated with financial instruments.

Master Netting Arrangements

PPL and its subsidiaries have elected not to offset net derivative positions in the Financial Statements. Accordingly, PPL and its subsidiaries do not offset such derivative positions against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL's and PPL Energy Supply's obligation to return counterparty cash collateral under master netting arrangements was $79 million and $338 million at June 30, 2011 and December 31, 2010.

PPL Electric, LKE, LG&E and KU had no obligation to return cash collateral under master netting arrangements at June 30, 2011 and December 31, 2010.

PPL Energy Supply, PPL Electric and KU had not posted any cash collateral under master netting arrangements at June 30, 2011 and December 31, 2010.

PPL, LKE and LG&E had posted cash collateral under master netting arrangements of $23 million at June 30, 2011 and $19 million at December 31, 2010.

Commodity Price Risk (Non-trading)

(PPL and PPL Energy Supply)

Commodity price and basis risks are among PPL's and PPL Energy Supply's most significant risks due to the level of investment that PPL and PPL Energy Supply maintain in their competitive generation assets, as well as the extent of their marketing and proprietary trading activities. Several factors influence price levels and volatilities. These factors include, but are not limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation/transmission availability and reliability within and between regions, market liquidity, and the nature and extent of current and potential federal and state regulations.

PPL and PPL Energy Supply enter into financial and physical derivative contracts, including forwards, futures, swaps and options, to hedge the price risk associated with electricity, gas, oil and other commodities. Certain contracts qualify for NPNS or are non-derivatives and are therefore not reflected in the financial statements until delivery. PPL and PPL Energy Supply segregate their remaining non-trading activities into two categories: cash flow hedge activity and economic activity. In addition, the monetization of certain full-requirements sales contracts in 2010 impacted both the cash flow hedge and economic activity, as discussed below.

Monetization of Certain Full-Requirement Sales Contracts

In early July 2010, in order to raise additional cash for the LKE acquisition, PPL Energy Supply monetized certain full-requirement sales contracts that resulted in cash proceeds of $156 million.

The decision in late June to monetize these contracts triggered certain accounting for the second quarter of 2010:

- A portion of these sales contracts had previously been accounted for as NPNS and received accrual accounting treatment. The related purchases to supply these sales contracts were accounted for as cash flow hedges, with the effective portion of the change in fair value being recorded in AOCI and the ineffective portion recorded in "Energy purchases - Unrealized economic activity."

- The rest of the sales contracts, along with their related hedges, had previously been accounted for as economic activity by PPL Energy Supply and the change in fair value of the sales contracts was recorded in "Wholesale energy marketing - Unrealized economic activity" and the change in fair value of the purchase contracts was recorded in "Energy purchases - Unrealized economic activity" on the Statement of Income.

- At June 30, 2010, PPL Energy Supply could no longer assert that it was probable that any contracts with these counterparties would result in physical delivery. Therefore, the fair value of the NPNS contracts of $66 million was recorded on the Balance Sheet in "Price risk management assets," with a corresponding gain to "Wholesale energy marketing - Unrealized economic activity." Of this amount, $16 million was related to full-requirement sales contracts that had not been monetized. The corresponding cash flow hedges were dedesignated and all amounts previously recorded in AOCI were reclassified to earnings. This resulted in a pre-tax reclassification of $(87) million of gains (losses) from AOCI into "Energy purchases - Unrealized economic activity" on the Statement of Income. An additional charge of $(23) million was also recorded at June 30, 2010 in "Wholesale energy marketing - Unrealized economic activity" to reflect the fair value of the sales contracts previously accounted for as economic activity.

- The net result of these transactions, excluding the full-requirement sales contracts that have not been monetized, was a gain (loss) of $(60) million, or $(36) million after tax, for the second quarter of 2010.

Cash Flow Hedges

Many derivative contracts have qualified for hedge accounting so that the effective portion of a derivative's gain or loss is deferred in AOCI and reclassified into earnings when the forecasted transaction occurs. The cash flow hedges that existed at June 30, 2011 range in maturity through 2016. At June 30, 2011, the accumulated net unrealized after-tax gains (losses) that are expected to be reclassified into earnings during the next 12 months were $287 million for PPL and PPL Energy Supply. Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is probable of not occurring. For the three and six months ended June 30, 2011, such reclassifications were insignificant. For the three and six months ended June 30, 2010, such reclassifications were $(56) million and $(53) million. The after-tax (losses) recorded in both periods in 2010 were primarily due to the monetization of certain full-requirement sales contracts, for which the associated hedges were no longer required, as discussed above.

For the three and six months ended June 30, 2011, hedge ineffectiveness associated with energy derivatives was, after-tax, a gain (loss) of $(10) million and $(14) million. For the three and six months ended June 30, 2010, hedge ineffectiveness associated with energy derivatives was, after-tax, a gain (loss) of $(30) million and $(24) million.

In addition, when cash flow hedge positions fail hedge effectiveness testing, hedge accounting is not permitted in the quarter in which this occurs and, accordingly, the entire change in fair value for the periods that failed is recorded to the income statement. Certain power and gas cash flow hedge positions failed effectiveness testing during 2008 and early 2009 which resulted in significant gains to the Statement of Income. However, these positions were not dedesignated as hedges, as prospective regression analysis demonstrated that these hedges were expected to be highly effective over their term. During the first quarter of 2010, after-tax gains (losses) of $(82) million were recognized in earnings as a result of the reversals. Effective April 1, 2010, clarifying accounting guidance was issued that precludes the reversal of previously recognized gains/losses resulting from hedge failures. By the end of the first quarter of 2010, all previously recorded hedge ineffectiveness gains resulting from hedge failures had reversed; therefore, the clarifying accounting guidance did not have a significant impact on the results of operation for PPL or PPL Energy Supply.

Economic Activity

Certain derivative contracts economically hedge the price and volumetric risk associated with electricity, gas, oil and other commodities but do not receive hedge accounting treatment. These derivatives hedge a portion of the economic value of PPL's and PPL Energy Supply's competitive generation assets and unregulated full-requirement and retail contracts, which are subject to changes in fair value due to market price volatility and volume expectations. Additionally, economic activity includes the ineffective portion of qualifying cash flow hedges (see "Cash Flow Hedges" above). The derivative contracts in this category that existed at June 30, 2011 range in maturity through 2017.

Examples of economic activity include certain purchase contracts used to supply full-requirement sales contracts; FTRs or basis swaps used to hedge basis risk associated with the sale of competitive generation or supplying unregulated full-requirement sales contracts; spark spreads (sale of electricity with the simultaneous purchase of fuel); retail electric and gas activities; and fuel oil swaps used to hedge price escalation clauses in coal transportation and other fuel-related contracts. PPL Energy Supply also uses options, which include the sale of call options and the purchase of put options tied to a particular generating unit. Since the physical generating capacity is owned, the price exposure is limited to the cost of the particular generating unit and does not expose PPL Energy Supply to uncovered market price risk.

Activity associated with monetizing certain full-requirement sales contracts is also included in economic activity during the second quarter of 2010. All transactions that previously had been considered cash flow hedges related to these full-requirement sales contracts, but no longer qualified as cash flow hedges, were classified as economic activity at June 30, 2010.

The net fair value of economic positions at June 30, 2011 and December 31, 2010 was a net liability of $235 million and $389 million for PPL Energy Supply. The unrealized gains (losses) for economic activity for the periods ended June 30 are as follows.

	Three Months		Six Months	
	2011	2010	2011	2010
Operating Revenues				
Unregulated retail electric and gas	$ 1	$ (2)	$ 5	$ 8
Wholesale energy marketing	(44)	(666)	13	(242)
Operating Expenses				
Fuel	(11)	(8)	12	(3)
Energy purchases (a)	109	445	127	(118)

(a) During the second quarter of 2010, PPL Energy Supply corrected an error relating to the fair value of a capacity contract (classified as economic activity) due to the use of an incorrect forward capacity curve. PPL Energy Supply's energy purchases were understated for the year ended December 31, 2009 and the first quarter of 2010 by an unrealized amount of $35 million ($20 million after tax or $0.05 per share, basic and diluted, for PPL) and $5 million ($3 million after tax or $0.01 per share, basic and diluted, for PPL). Management concluded that the impacts were not material to first quarter 2010 financial statements of PPL and PPL Energy Supply, and were not material to the financial statements for the full year 2010.

The net gains (losses) recorded in "Wholesale energy marketing" resulted primarily from certain full-requirement sales contracts for which PPL Energy Supply did not elect NPNS, from hedge ineffectiveness, including hedges that failed effectiveness testing, as discussed in "Cash Flow Hedges" above, and from the monetization of certain full-requirement sales contracts. The net gains (losses) recorded in "Energy purchases" resulted primarily from certain purchase contracts to supply the full-requirement sales contracts noted above for which PPL Energy Supply did not elect hedge treatment, from hedge ineffectiveness, including hedges that failed effectiveness testing, and from purchase contracts that no longer hedge the full-requirement sales contracts that were monetized as discussed above in "Monetization of Certain Full-Requirement Sales Contracts."

(PPL, LKE, LG&E and KU)

LG&E and KU primarily utilize forward financial transactions to manage price risk associated with the electricity generated that is not required by end-use customers. Hedge accounting treatment has not been elected for these transactions; therefore, realized and unrealized gains and losses are recorded in the Statements of Income. The derivative contracts in this category that existed at June 30, 2011 range in maturity through 2012.

The net fair value of economic positions for LKE, LG&E and KU at June 30, 2011 and December 31, 2010 was not significant. Unrealized gains (losses) for economic activity for LKE, LG&E and KU for the three and six months ended June 30, 2011 and 2010 were not significant.

Commodity Price Risk (Trading) *(PPL and PPL Energy Supply)*

PPL Energy Supply also executes energy contracts to take advantage of market opportunities. As a result, PPL Energy Supply may at times create a net open position in its portfolio that could result in significant losses if prices do not move in the manner or direction anticipated. PPL Energy Supply's trading activity is shown in "Net energy trading margins" on the Statements of Income.

Commodity Volumetric Activity

(PPL and PPL Energy Supply)

PPL Energy Supply currently employs four primary strategies to maximize the value of its wholesale energy portfolio. As further discussed below, these strategies include the sales of baseload generation, optimization of intermediate and peaking generation, marketing activities, and proprietary trading activities. The tables within this section present the volumes of PPL Energy Supply's derivative activity, excluding those that qualify for NPNS, unless otherwise noted.

Sales of Baseload Generation

PPL Energy Supply has a formal hedging program for its competitive baseload generation fleet, which includes 7,267 MW of nuclear, coal and hydroelectric generating capacity. The objective of this program is to provide a reasonable level of near-term cash flow and earnings certainty while preserving upside potential of power price increases over the medium term. PPL Energy Supply sells its expected generation output on a forward basis using both derivative and non-derivative instruments. Both are included in the following tables.

The following table presents the expected sales, in GWh, from baseload generation and tolling arrangements that are included in the baseload portfolio based on current forecasted assumptions for 2011-2013. These expected sales could be impacted by several factors, including plant availability.

2011 (a)	2012	2013
27,118	54,675	54,364

(a) Represents expected sales for the balance of the current year.

The following table presents the percentage of expected baseload generation sales shown above that has been sold forward under fixed price contracts and the related percentage of fuel that has been purchased or committed at June 30, 2011.

			Fuel Purchases (d)	
Year	**Derivative Sales (a) (b)**	**Total Power Sales (c)**	**Coal**	**Nuclear**
2011 (e)	91%	98%	100%	100%
2012	89%	97%	96%	100%
2013	61%	69%	88%	100%

(a) Excludes non-derivative contracts and contracts that qualify for NPNS. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.
(b) Volumes for derivative sales contracts that deliver between 2014 and 2016 total 2,964 GWh and 8.4 Bcf.
(c) Amount represents derivative and non-derivative contracts. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option. Percentages are based on fixed-price contracts only.
(d) Coal and nuclear contracts receive accrual accounting treatment, as they are not derivative contracts. Percentages are based on both fixed- and variable-priced contracts.
(e) Represents the balance of the current year.

In addition to the fuel purchases above, PPL Energy Supply attempts to economically hedge the fuel price risk that is within its fuel-related and coal transportation contracts, which are tied to changes in crude oil or diesel prices. The following table presents the volumes (in thousands of barrels) of derivative contracts used in support of this strategy at June 30, 2011.

	2011 (a)	2012	2013
Oil Swaps (b)	48	756	420

(a) Represents the balance of the current year.
(b) Volumes (in thousands of barrels) for derivative contracts used in support of this strategy that deliver in 2014 total 120

Optimization of Intermediate and Peaking Generation

In addition to its competitive baseload generation activities, PPL Energy Supply attempts to optimize the overall value of its competitive intermediate and peaking fleet, which includes 3,501 MW of gas and oil-fired generation. The following table presents the volumes of derivative contracts used in support of this strategy at June 30, 2011.

	Units	2011 (a)	2012	2013
Net Power Sales (b) (c)	GWh	(2,210)	(2,006)	(1,224)
Net Fuel Purchases (b) (c)	Bcf	20.7	13.5	8.2

(a) Represents the balance of the current year.
(b) Included in these volumes are non-options and exercised option contracts that converted to non-option derivative contracts. Volumes associated with option contracts are not significant.
(c) Volumes for derivative contracts used in support of this strategy that deliver in 2014 total 408 GWh and 2.7 Bcf.

Marketing Activities

PPL Energy Supply's marketing portfolio is comprised of full-requirement sales contracts and their related supply contracts, retail gas and electricity sales contracts and other marketing activities. The full-requirement sales contracts and their related supply contracts make up a significant component of the marketing portfolio. The obligations under the full-requirement sales contracts include supplying a bundled product of energy, capacity, RECs, and other ancillary products. The full-requirement sales contracts PPL Energy Supply is awarded do not provide for specific levels of load, and actual load could vary significantly from forecasted amounts. PPL Energy Supply uses a variety of strategies to hedge its full-requirement sales contracts, including purchasing energy at a liquid trading hub or directly at the load delivery zone, purchasing capacity and RECs in the market and supplying the energy, capacity and RECs with its generation. RECs are not derivatives and are excluded from the table below. The following table presents the volume of (sales)/purchase contracts, excluding FTRs, basis and capacity contracts, used in support of these activities at June 30, 2011.

	Units	2011 (a)	2012	2013
Energy sales contracts (b) (c)	GWh	(6,876)	(9,918)	(3,510)
Related energy supply contracts (b) (c)				
Energy purchases	GWh	5,019	6,021	522
Volumetric hedges (d)	GWh	337	320	
Generation supply	GWh	1,662	3,621	2,883
Retail gas sales contracts (c)	Bcf	(3.3)	(7.0)	(0.4)
Retail gas purchase contracts (c)	Bcf	3.3	7.0	0.4

(a) Represents the balance of the current year.
(b) Includes NPNS and contracts that are not derivatives, which receive accrual accounting.
(c) Net volumes for derivative contracts, excluding contracts that qualify for NPNS that deliver between 2014 and 2015 are not significant.
(d) PPL Energy Supply uses power and gas options, swaps and futures to hedge the volumetric risk associated with full-requirement sales contracts since the demand for power varies hourly. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.

Other Energy Related Positions

FTRs and Other Basis Positions

PPL Energy Supply buys and sells FTRs and other basis positions to mitigate the basis risk between delivery points related to the sales of its generation, the supply of its full-requirement sales contracts and retail contracts, as well as for proprietary trading purposes. The volume of derivative FTR and basis (sales)/purchase contracts at June 30, 2011 were:

	Units	2011 (a)	2012	2013
FTRs	GWh	19,169	15,297	
Power Basis Positions (b)	GWh	(8,478)	(8,435)	(624)
Gas Basis Positions (c)	Bcf	17.3	10.6	(0.7)

(a) Represents the balance of the current year.
(b) Net volumes that deliver in 2015 are 205 GWh.
(c) Net volumes that deliver in 2014 and 2015 are (1.1) Bcf.

Capacity Positions

PPL Energy Supply buys and sells capacity related to the sales of its generation and the supply of its full-requirement sales contracts, as well as for proprietary trading purposes. The following table presents the volumes of derivative capacity (sales)/purchase contracts at June 30, 2011.

	Units	2011 (a)	2012	2013
Capacity (b)	MW-months	(2,475)	(3,542)	(1,005)

(a) Represents the balance of the current year.
(b) Net volumes that deliver between 2014 and 2016 are (253) MW-months.

Proprietary Trading Activity

At June 30, 2011, PPL Energy Supply's proprietary trading positions, excluding FTR, basis and capacity contract activity that is included in the tables above, were not significant.

Sales of Excess Regulated Generation (PPL, LKE, LG&E and KU)

LKE and its subsidiaries manage the price risk of expected excess regulated generation capacity using market-traded forward contracts. At June 30, 2011, the net volume of electricity based financial derivatives outstanding to hedge excess regulated generation was insignificant for LKE, LG&E and KU.

Interest Rate Risk

Cash Flow Hedges *(PPL and PPL Energy Supply)*

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. PPL enters into financial interest rate swap contracts to hedge these exposures. These interest rate swap contracts mature through 2041 and had a notional value of $350 million at June 30, 2011.

Through PPL, PPL WEM holds a notional position in cross-currency interest rate swaps totaling $960 million that mature through 2021 to hedge the interest payments and principal of the U.S. dollar-denominated senior notes issued by PPL WEM in April 2011. Additionally, PPL WW holds a notional position in cross-currency interest rate swaps totaling $302 million that mature through December 2028 to hedge the interest payments and principal of its U.S. dollar-denominated senior notes. In 2010, these PPL WW swaps were part of PPL Energy Supply's business. As a result of the distribution of PPL Energy Supply's membership interest in PPL Global to PPL Energy Funding effective January 2011, these swaps are no longer part of PPL Energy Supply's business.

For the three and six months ended June 30, 2011, hedge ineffectiveness associated with interest rate derivatives was a gain (loss) of $(12) million and $(13) million for PPL, of which a gain (loss) of $(5) million was attributable to certain interest rate swaps that failed hedge effectiveness testing during the second quarter of 2011. For the three and six months ended June 30, 2010, hedge ineffectiveness associated with interest rate derivatives was insignificant for both PPL and PPL Energy Supply.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is probable of not occurring. PPL and PPL Energy Supply had no such reclassifications for the three and six months ended June 30, 2011 and 2010.

At June 30, 2011, the accumulated net unrealized after-tax gains (losses) on qualifying derivatives that are expected to be reclassified into earnings during the next 12 months were $(10) million for PPL. Amounts are reclassified as the hedged interest payments are made.

Fair Value Hedges *(PPL and PPL Energy Supply)*

PPL and PPL Energy Supply are exposed to changes in the fair value of their debt portfolios. To manage this risk, PPL and PPL Energy Supply may enter into financial contracts to hedge fluctuations in the fair value of existing debt issuances due to changes in benchmark interest rates. At June 30, 2011, PPL held contracts that range in maturity through 2047 and had a notional value of $349 million. PPL Energy Supply did not hold any such contracts at June 30, 2011. PPL and PPL Energy Supply did not recognize any gains or losses resulting from the ineffective portion of fair value hedges or from a portion of the hedging instrument being excluded from the assessment of hedge effectiveness for the three and six months ended June 30, 2011 and 2010. Additionally, PPL and PPL Energy Supply did not recognize any gains or losses resulting from hedges of debt that no longer qualified as fair value hedges for the three and six months ended June 30, 2011 and 2010.

Economic Activity *(PPL, LKE and LG&E)*

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Beginning in the third quarter of 2010, as a result of a rate case order, realized gains and losses from the swaps are recoverable through regulated rates. Therefore, any subsequent change in fair value of these derivatives is included in regulatory assets and liabilities. Realized gains and losses are recognized in "Interest Expense" on the Statement of Income when the hedged transaction occurs. Prior to the third quarter of 2010, LG&E reclassified amounts previously recorded in AOCI to earnings in the same period during which the forecasted transaction affected earnings. The amounts recorded to regulatory assets and the amounts amortized from AOCI to earnings were not significant for the three and six months ended June 30, 2011 and 2010. At June 30, 2011, LG&E held contracts with a notional amount of $179 million that range in maturity through 2033. The fair value of these contracts was a liability of $35 million and $34 million at June 30, 2011 and December 31, 2010.

Foreign Currency Risk

(PPL)

Cash Flow Hedges

At June 30, 2011, there were no existing foreign currency cash flow hedges associated with foreign currency-denominated debt or firm commitments (including those for the purchase of equipment) denominated in foreign currencies. Amounts previously settled and recorded in AOCI are reclassified as the hedged interest payments are made and as the related equipment is depreciated. Insignificant gains are expected to be reclassified into earnings during the next 12 months.

During the three and six months ended June 30, 2011 and 2010, no cash flow hedges were discontinued because it was probable that the original forecasted transaction would not occur by the end of the originally specified time periods.

Fair Value Hedges

PPL enters into foreign currency forward contracts to hedge the exchange rates associated with firm commitments denominated in foreign currencies; however, at June 30, 2011, there were no existing contracts of this nature and no gains or losses recorded during the three and six months ended June 30, 2011 and 2010 related to hedge ineffectiveness, or from a portion of the hedging instrument being excluded from the assessment of hedge ineffectiveness, or from hedges of firm commitments that no longer qualified as fair value hedges.

Net Investment Hedges *(PPL and PPL Energy Supply)*

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. In 2010, these contracts were included in PPL Energy Supply's business. As a result of the distribution of PPL Energy Supply's membership interest in PPL Global to PPL Energy Funding, effective January 2011, these contracts are no longer included in PPL Energy Supply's business.

The contract outstanding at June 30, 2011 had a notional amount of £10 million (approximately $17 million based on contracted rates) and settles in March 2012. At June 30, 2011, the fair value of this contract was insignificant. For the three and six months ended June 30, 2011, PPL recognized an insignificant amount of net investment hedge after-tax gains (losses) in the foreign currency translation adjustment component of AOCI. For the three and six months ended June 30, 2010, PPL and PPL Energy Supply recognized an insignificant amount and $4 million of net investment hedge after-tax gains (losses) in the foreign currency translation adjustment component of AOCI. At June 30, 2011, PPL included $14 million of accumulated net investment hedge gains (losses), after tax, in the foreign currency translation adjustment component of AOCI. At December 31, 2010, PPL and PPL Energy Supply included $15 million of accumulated net investment hedge gains (losses), after-tax, in AOCI.

Economic Activity

(PPL)

In anticipation of the repayment of a portion of the GBP-denominated borrowings under the 2011 Bridge Facility with U.S. dollar proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of U.S. dollar-denominated senior notes, as discussed in Note 7, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. These trades were settled in April 2011. Gains and losses on these contracts are included in "Other Income (Expense) - net" on the Statement of Income. PPL recorded $62 million and $55 million of pre-tax, net gains (losses) for the three and six months ended June 30, 2011.

(PPL and PPL Energy Supply)

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge anticipated earnings denominated in GBP. In 2010, these contracts were included in PPL Energy Supply's business. As a result of the distribution of PPL Energy Supply's membership interest in PPL Global to PPL Energy Funding, effective January 2011, these contracts are no longer included in PPL Energy Supply's business. At June 30, 2011, the total exposure hedged by PPL was £188 million, the net fair value of these positions was insignificant and these contracts had termination dates ranging from July 2011 to December 2011. PPL records gains (losses) on these contracts in "Other Income (Expense) - net" on the Statements of Income. Gains (losses) were insignificant for the three and six months ended June 30, 2011 and 2010. PPL Energy Supply's 2010 gains (losses), both realized and unrealized, are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statement of Income and were insignificant for the three and six months ended 2010.

Accounting and Reporting

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

All derivative instruments are recorded at fair value on the Balance Sheets as an asset or liability unless they qualify for NPNS. NPNS contracts for PPL and PPL Energy Supply include full-requirement sales contracts, power purchase agreements and certain retail energy and physical capacity contracts, and for PPL Electric include full-requirement purchase contracts and block purchase contracts. Changes in the derivatives' fair value are recognized currently in earnings unless specific hedge accounting criteria are met, except for the change in fair value of LG&E's interest rate swaps which is recognized as a regulatory asset. See Note 6 for amounts recorded in regulatory assets at June 30, 2011 and December 31, 2010.

See Notes 1 and 19 in PPL and PPL Electric's 2010 Form 10-K, Notes 1 and 15 in PPL Energy Supply's Form 8-K dated June 24, 2011 and Notes 1 and 5 in the annual financial statements included in LKE's, LG&E's and KU's 2011 Registration Statements for additional information on accounting policies related to derivative instruments.

(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	June 30, 2011				December 31, 2010			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (b):								
Interest rate swaps	$ 5	$ 16		$ 3	$ 11	$ 19		$ 2
Cross-currency swaps		3			7	9		
Foreign currency exchange contracts			$ 4		7		$ 4	
Commodity contracts	699	3	759	792	878	19	1,011	1,095
Total current	704	22	763	795	903	47	1,015	1,097
Noncurrent:								
Price Risk Management								
Assets/Liabilities (b):								
Interest rate swaps	1			32	4			32
Cross-currency swaps	9	2			37			
Commodity contracts	173	17	482	392	169	7	445	431
Total noncurrent	183	19	482	424	210	7	445	463
Total derivatives	$ 887	$ 41	$ 1,245	$ 1,219	$ 1,113	$ 54	$ 1,460	$ 1,560

(a) $279 million and $326 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at June 30, 2011 and December 31, 2010.
(b) Represents the location on the Balance Sheet.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $544 million and $695 million at June 30, 2011 and December 31, 2010. The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $761 million and $602 million at June 30, 2010 and December 31, 2009.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets for the periods ended June 30, 2011.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative		Gain (Loss) Recognized in Income on Related Item	
			Three Months	Six Months	Three Months	Six Months
Interest rate swaps	Fixed rate debt	Interest expense	$ 1	$ 2	$ 8	$ 18

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income	Three Months		Six Months	
	Three Months	Six Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	$ (9)	$ 1	Interest expense	$ (3)	$ (12)	$ (6)	$ (13)
Cross-currency swaps	(8)	(33)	Interest expense			3	
			Other income (expense) - net	30		17	
Commodity contracts	(34)	50	Wholesale energy marketing	164	(14)	367	(22)
			Energy purchases	(47)		(117)	1
Total	$ (51)	$ 18		$ 144	$ (26)	$ 264	$ (34)
Net Investment Hedges:							
Foreign exchange contracts		$ (1)					

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Six Months
Foreign exchange contracts	Other income (expense) - net	$ 64	$ 55
Interest rate swaps	Interest expense	(2)	(4)
Commodity contracts	Utility	(3)	(2)
	Unregulated retail electric and gas	4	5
	Wholesale energy marketing	(71)	(26)
	Net energy trading margins (a)	4	11
	Fuel	(8)	15
	Energy purchases	91	36
	Total	$ 79	$ 90

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Six Months
Interest rate swaps	Regulatory assets	$ (3)	$ (1)

(a) Differs from the Statement of Income due to intra-month transactions that PPL defines as spot activity, which is not accounted for as a derivative.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the periods ended June 30, 2010.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative		Gain (Loss) Recognized in Income on Related Item	
			Three Months	Six Months	Three Months	Six Months
Interest rate swaps	Fixed rate debt	Interest expense	$ 16	$ 34	$ (6)	$ (13)

	Three Months							
				Three Months		Six Months		
Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) Three Months	Derivative Gain (Loss) Recognized in OCI (Effective Portion) Six Months	Location of Gain (Loss) Recognized in Income	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	$ (93)	$ (101)	Interest expense			$ (1)	$ (3)
Cross-currency swaps	24	46	Interest expense	$ 1		1	
			Other income (expense) - net	16		38	
Commodity contracts	(196)	429	Wholesale energy marketing	198	$ (52)	376	(165)
			Fuel			1	
			Depreciation			1	
			Energy purchases	(207)	1	(311)	(17)
Total	$ (265)	$ 374		$ 8	$ (51)	$ 105	$ (185)
Net Investment Hedges:							
Foreign exchange contracts	$ 1	$ 5					

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Six Months
Foreign exchange contracts	Other income (expense) - net		$ 2
Commodity contracts	Unregulated retail electric and gas	$ 1	12
	Wholesale energy marketing	(435)	323
	Net energy trading margins (a)	2	11
	Fuel	(13)	(12)
	Energy purchases	244	(495)
	Total	$ (201)	$ (159)

(a) Differs from the Statement of Income due to intra-month transactions that PPL defines as spot activity, which is not accounted for as a derivative.

(PPL Energy Supply)

See Note 8 for information on PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding. The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	June 30, 2011				December 31, 2010			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management Assets/Liabilities (b):								
Cross-currency swaps					$ 7	$ 9		
Foreign currency exchange contracts					7		$ 4	
Commodity contracts	$ 699	$ 3	$ 758	$ 789	878	19	1,011	$ 1,084
Total current	699	3	758	789	892	28	1,015	1,084
Noncurrent:								
Price Risk Management Assets/Liabilities (b):								
Cross-currency swaps					37			
Commodity contracts	173	17	482	392	169	7	445	431
Total noncurrent	173	17	482	392	206	7	445	431
Total derivatives	$ 872	$ 20	$ 1,240	$ 1,181	$ 1,098	$ 35	$ 1,460	$ 1,515

(a) $279 million and $326 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at June 30, 2011 and December 31, 2010.
(b) Represents the location on the balance sheet.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $573 million and $733 million at June 30, 2011 and December 31, 2010. At June 30, 2011, AOCI reflects the effect of PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 8 for additional information. The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $790 million and $573 million at June 30, 2010 and December 31, 2009.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the periods ended June 30, 2011.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative		Gain (Loss) Recognized in Income on Related Item	
			Three Months	Six Months	Three Months	Six Months
Interest rate swaps	Fixed rate debt	Interest expense			$ 1	$ 1

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gains (Losses) Recognized in Income	Three Months		Six Months	
	Three Months	Six Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Commodity contracts	$ (34)	$ 50	Wholesale energy marketing	$ 164	$ (14)	$ 367	$ (22)
			Energy purchases	(47)		(117)	1
Total	$ (34)	$ 50		$ 117	$ (14)	$ 250	$ (21)

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Six Months
Commodity contracts	Unregulated retail electric and gas	$ 4	$ 5
	Wholesale energy marketing	(71)	(26)
	Net energy trading margins (a)	4	11
	Fuel	(8)	15
	Energy purchases	91	36
	Total	$ 20	$ 41

(a) Differs from the Statement of Income due to intra-month transactions that PPL Energy Supply defines as spot activity, which is not accounted for as a derivative.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the periods ended June 30, 2010.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative		Gain (Loss) Recognized in Income on Related Item	
			Three Months	Six Months	Three Months	Six Months
Interest rate swaps	Fixed rate debt	Interest expense			$ 1	$ 1

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gains (Losses) Recognized in Income	Three Months		Six Months	
	Three Months	Six Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps			Discontinued operations				$ (3)
Cross-currency swaps	$ 24	$ 46	Interest expense	$ 1		$ 1	
			Discontinued operations	16		38	
Commodity contracts	$ (196)	429	Wholesale energy marketing	198	$ (52)	376	(165)
			Fuel			1	
			Depreciation			1	
			Energy purchases	(207)	1	(311)	(17)
Total	$ (172)	$ 475		$ 8	$ (51)	$ 106	$ (185)
Net Investment Hedges:							
Foreign exchange contracts	$ 1	$ 5					

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Six Months
Foreign exchange contracts	Discontinued operations		$ 2
Commodity contracts	Unregulated retail electric and gas	$ 1	12
	Wholesale energy marketing	(435)	323
	Net energy trading margins (a)	2	11
	Fuel	(13)	(12)
	Energy purchases	244	(495)
	Total	$ (201)	$ (159)

(a) Differs from the Statement of Income due to intra-month transactions that PPL Energy Supply defines as spot activity, which is not accounted for as a derivative.

(LKE and LG&E)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	June 30, 2011				December 31, 2010			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Other Current Assets/Liabilities (a):								
Interest rate swaps				$ 3				$ 2
Commodity contracts			$ 1	3				2
Total current			1	6				4
Noncurrent:								
Price Risk Management Assets/Liabilities (a):								
Interest rate swaps				32				32
Total noncurrent				32				32
Total derivatives			$ 1	$ 38				$ 36

(a) Represents the location on the Balance Sheet.

There were no after-tax balances of accumulated net gains (losses) in AOCI at June 30, 2011 and December 31, 2010. The after-tax balances of accumulated net gains (losses) in AOCI were $(4) million and $5 million at June 30, 2010 and December 31, 2009.

The following tables present the pre-tax effect of derivative instruments recognized in income or regulatory assets for the periods ended June 30, 2011, for the successor.

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Six Months
Interest rate swaps	Interest expense	$ (2)	$ (4)
Commodity contracts	Retail and wholesale	(3)	(2)
	Total	$ (5)	$ (6)

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Six Months
Interest rate swaps	Regulatory assets	$ (3)	$ (1)

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the periods ended June 30, 2010, for the predecessor.

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Six Months
Interest rate swaps	Interest expense	$ (1)	$ (2)
	Other income (expense) - net	(10)	(11)
Commodity contracts	Retail and wholesale		3
	Total	$ (11)	$ (10)

The ineffective portion of financial instruments designated as cash flow hedges was recorded to earnings, as is the entire change in the market value of the ineffective swaps. For the three months ended June 30, 2010, LG&E recorded an insignificant pre-tax loss in interest expense to reflect the change in the ineffective portion of the interest rate swaps deemed highly effective. Amounts recorded in AOCI were reclassified into earnings in the same period during which the hedged forecasted transaction affected earnings. The amount amortized from AOCI to income in the three and six months ended June 30, 2010 were not significant. The amount expected to be reclassified from AOCI to earnings in the next twelve months was not significant. The loss on hedging interest rate swaps recognized in OCI for the three and six months ended June 30, 2010 was $3 million and $4 million. For the three and six months ended June 30, 2010, the gain on derivatives reclassified from AOCI to income was not significant, and was recorded in other income (expense) - net.

Gains and losses associated with derivative instruments were not significant for the three months ended June 30, 2010.

Credit Risk-Related Contingent Features *(PPL, PPL Energy Supply, LKE and LG&E)*

Certain of PPL's, PPL Energy Supply's, LKE's and LG&E's derivative contracts contain credit contingent provisions which would permit the counterparties with which PPL, PPL Energy Supply, LKE or LG&E is in a net liability position to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, PPL Energy Supply, LKE, LG&E, or certain of their subsidiaries. Most of these provisions would require PPL, PPL Energy Supply, LKE or LG&E to transfer additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these provisions also would allow the counterparty to require additional collateral upon each decrease in the credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade (i.e., below BBB- for S&P or Fitch, or Baa3 for Moody's), and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent provisions require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization by PPL, PPL Energy Supply, LKE or LG&E on derivative instruments in net liability positions.

Additionally, certain of PPL's, PPL Energy Supply's, LKE's and LG&E's derivative contracts contain credit contingent provisions that require PPL, PPL Energy Supply, LKE or LG&E to provide "adequate assurance" of performance if the other party has reasonable grounds for insecurity regarding PPL's, PPL Energy Supply's, LKE's or LG&E's performance of its obligation under the contract. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" provisions.

At June 30, 2011, the effect of a decrease in credit ratings below investment grade on derivative contracts that contain credit contingent features and were in a net liability position is summarized as follows:

	PPL	PPL Energy Supply	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit contingent provisions	$ 88	$ 57	$ 26	$ 26
Collateral posted on these derivative instruments	61	38	23	23
Additional collateral requirements in the event of a credit downgrade below investment grade (a)	184	173	5	5

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

15 . Goodwill

(PPL and PPL Energy Supply)

The changes in the carrying amounts of goodwill by segment were as follows.

	Kentucky Regulated	International Regulated	Supply	Total
PPL				
Balance at December 31, 2010 (a)	$ 662	$ 679	$ 420 (d)	$ 1,761
Goodwill recognized during the period (b)		2,327		2,327
Effect of foreign currency exchange rates		102		102
Balance at June 30, 2011 (a)	$ 662	$ 3,108	$ 420	$ 4,190

	International Regulated	Supply	Total
PPL Energy Supply			
Balance at December 31, 2010 (a)	$ 679	$ 86	$ 765
Derecognition (c)	(679)		(679)
Balance at June 30, 2011 (a)	$	$ 86	$ 86

(a) There were no accumulated impairment losses related to goodwill.
(b) Recognized as a result of the 2011 acquisition of WPD Midlands. See Note 8 for additional information.
(c) Represents the amount of goodwill derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 8 for additional information on the distribution. Subsequent to the distribution, PPL Energy Supply operates in a single business operating segment and reporting unit.
(d) Includes goodwill attributed to the Supply segment as a result of the 2010 acquisition of LKE.

16 . Asset Retirement Obligations

(PPL, LKE, LG&E and KU)

Accretion expense recorded by LG&E and KU is offset with a regulatory asset, such that there is no income statement impact.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

The changes in the carrying amounts of AROs were as follows.

	PPL	PPL Energy Supply	LKE	LG&E	KU
ARO at December 31, 2010	$ 448	$ 345	$ 103	$ 49	$ 54
Accretion expense	16	12	3	2	1
Obligations assumed in acquisition of WPD Midlands (a)	43				
Derecognition (b)		(5)			
Changes in estimated cash flow or settlement date	(3)	(3)			
Effect of foreign currency exchange rates	1				
Obligations settled	(6)	(6)			
ARO at June 30, 2011	$ 499	$ 343	$ 106	$ 51	$ 55

(a) Obligations required under U.K. law related to treated wood poles, gas-filled switchgear and fluid-filled cables. See Note 8 for additional information on the acquisition.
(b) Represents AROs derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 8 for additional information on the distribution.

The classification of AROs on the Balance Sheet was as follows.

	June 30, 2011				
	PPL	PPL Energy Supply	LKE	LG&E	KU
Current portion (a)	$ 8	$ 7	$ 1	$ 1	
Long-term portion (b)	491	336	105	50	$ 55
Total	$ 499	$ 343	$ 106	$ 51	$ 55

	December 31, 2010				
	PPL	PPL Energy Supply	LKE	LG&E	KU
Current portion (a)	$ 13	$ 13			
Long-term portion (b)	435	332	$ 103	$ 49	$ 54
Total	$ 448	$ 345	$ 103	$ 49	$ 54

(a) Included in "Other current liabilities."
(b) Included in "Asset retirement obligations."

(PPL and PPL Energy Supply)

The most significant ARO recorded by PPL and PPL Energy Supply relates to the decommissioning of the Susquehanna nuclear plant. The accrued nuclear decommissioning obligation was $281 million and $270 million at June 30, 2011 and December 31, 2010, and is included in "Asset retirement obligations" on the Balance Sheets.

Assets in the NDT funds are legally restricted for purposes of settling PPL's and PPL Energy Supply's ARO related to the decommissioning of the Susquehanna station. The aggregate fair value of these assets was $648 million and $618 million at June 30, 2011 and December 31, 2010, and is included in "Nuclear plant decommissioning trust funds" on the Balance Sheets. See Notes 13 and 17 for additional information on these assets.

17 . Available-for-Sale Securities

(PPL, PPL Energy Supply, LKE and LG&E)

PPL and its subsidiaries classify certain short-term investments, securities held by the NDT funds and auction rate securities as available-for-sale. Available-for-sale securities are carried on the Balance Sheets at fair value. Unrealized gains and losses on these securities are reported, net of tax, in OCI or are recognized currently in earnings when a decline in fair value is determined to be other-than-temporary. The specific identification method is used to calculate realized gains and losses.

The following table shows the amortized cost, the gross unrealized gains and losses recorded in AOCI, and the fair value of available-for-sale securities.

	June 30, 2011				December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
PPL								
Short-term investments								
- municipal debt securities					$ 163			$ 163
NDT funds:								
Cash and cash equivalents	$ 10			$ 10	10			10
Equity securities:								
U.S. large-cap	173	$ 131		304	180	$ 123		303
U.S. mid/small-cap	68	56		124	67	52		119
Debt securities:								
U.S. Treasury	74	5		79	71	4		75
U.S. government sponsored agency	10			10	6	1		7
Municipality	79	2	$ 1	80	69			69
Investment-grade corporate	35	2		37	31	2		33
Other	3			3	1			1
Receivables/payables, net	1			1	1			1
Total NDT funds	453	196	1	648	436	182		618
Auction rate securities	25			25	25			25
Total	$ 478	$ 196	$ 1	$ 673	$ 624	$ 182		$ 806

	June 30, 2011				December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
PPL Energy Supply								
NDT funds:								
Cash and cash equivalents	$ 10			$ 10	$ 10			$ 10
Equity securities:								
U.S. large-cap	173	$ 131		304	180	$ 123		303
U.S. mid/small-cap	68	56		124	67	52		119
Debt securities:								
U.S. Treasury	74	5		79	71	4		75
U.S. government sponsored agency	10			10	6	1		7
Municipality	79	2	$ 1	80	69			69
Investment-grade corporate	35	2		37	31	2		33
Other	3			3	1			1
Receivables/payables, net	1			1	1			1
Total NDT funds	453	196	1	648	436	182		618
Auction rate securities	20			20	20			20
Total	$ 473	$ 196	$ 1	$ 668	$ 456	$ 182		$ 638
LKE and LG&E								
Short-term investments								
- municipal debt securities					$ 163			$ 163

There were no securities with credit losses at June 30, 2011 and December 31, 2010.

The following table shows the scheduled maturity dates of debt securities held at June 30, 2011.

	Maturity Less Than 1 Year	Maturity 1-5 Years	Maturity 5-10 Years	Maturity in Excess of 10 Years	Total
PPL					
Amortized cost	$ 11	$ 69	$ 66	$ 80	$ 226
Fair value	12	71	69	82	234
PPL Energy Supply					
Amortized cost	$ 11	$ 69	$ 66	$ 75	$ 221
Fair value	12	71	69	77	229

The following table shows proceeds from and realized gains and losses on sales of available-for-sale securities for the periods ended June 30.

	Three Months		Six Months	
	2011	2010	2011	2010
PPL				
Proceeds from sales of NDT securities (a)	$ 25	$ 24	$ 100	$ 68
Other proceeds from sales			163	
Gross realized gains (b)	6	4	23	9
Gross realized losses (b)	6	2	11	3
PPL Energy Supply				
Proceeds from sales of NDT securities (a)	$ 25	$ 24	$ 100	$ 68
Gross realized gains (b)	6	4	23	9
Gross realized losses (b)	6	2	11	3

(a) These proceeds are used to pay income taxes and fees related to managing the trust. Remaining proceeds are reinvested in the trust.
(b) Excludes the impact of other-than-temporary impairment charges recognized in the Statements of Income.

(PPL, LKE and LG&E)

At December 31, 2010, LG&E held $163 million aggregate principal amount of tax-exempt revenue bonds issued by Louisville/Jefferson County, Kentucky on behalf of LG&E that were purchased from the remarketing agent in 2008. At December 31, 2010, these investments were reflected in "Short-term investments" on the Balance Sheet. During the six months ended June 30, 2011, LG&E received $163 million for its investments in these bonds when they were remarketed to unaffiliated investors. No realized or unrealized gains (losses) were recorded on these securities, as the difference between carrying value and fair value was not significant.

18 . New Accounting Guidance Pending Adoption

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Fair Value Measurements

Effective January 1, 2012, PPL and its subsidiaries will prospectively adopt accounting guidance that was issued to clarify existing fair value measurement guidance as well as enhance fair value disclosures. The additional disclosures required by this guidance include quantitative information about significant unobservable inputs used for Level 3 measurements, qualitative information about the sensitivity of recurring Level 3 measurements, information about any transfers between Level 1 and 2 of the fair value hierarchy, information about when the current use of a non-financial asset is different from the highest and best use, and the hierarchy classification for assets and liabilities whose fair value is disclosed only in the notes to the financial statements.

Any fair value measurement differences resulting from the adoption of this guidance will be recognized in income in the period of adoption. The adoption of this guidance is not expected to have a significant impact on PPL and its subsidiaries.

Presentation of Comprehensive Income

Effective January 1, 2012, PPL and its subsidiaries will retrospectively adopt accounting guidance that was issued to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items that are recorded in OCI. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements where the first statement includes the components of net income and the second statement includes the components of OCI.

Regardless of whether an entity chooses to present comprehensive income in a single continuous statement or in two separate but consecutive statements, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented.

Upon adoption, the change in presentation is not expected to have a significant impact on PPL and its subsidiaries.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with PPL's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL's 2010 Form 10-K. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides an overview of PPL's business strategy, financial and operational highlights, and key legal and regulatory matters.

- "Results of Operations" provides a summary of PPL's earnings and a review of results by reportable segment and a description of key factors by segment that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on PPL's Statements of Income, comparing the three and six months ended June 30, 2011 with the same periods in 2010.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL's liquidity position and credit profile. This section also includes a discussion of rating agency decisions and capital expenditure projections.

- "Financial Condition - Risk Management" provides an explanation of PPL's risk management programs relating to market and credit risk.

- "Application of Critical Accounting Policies" provides an update to PPL's critical accounting policy related to "Business Combinations - Purchase Price Allocation." This critical accounting policy is being updated to reflect the impact of the April 2011 acquisition of WPD Midlands.

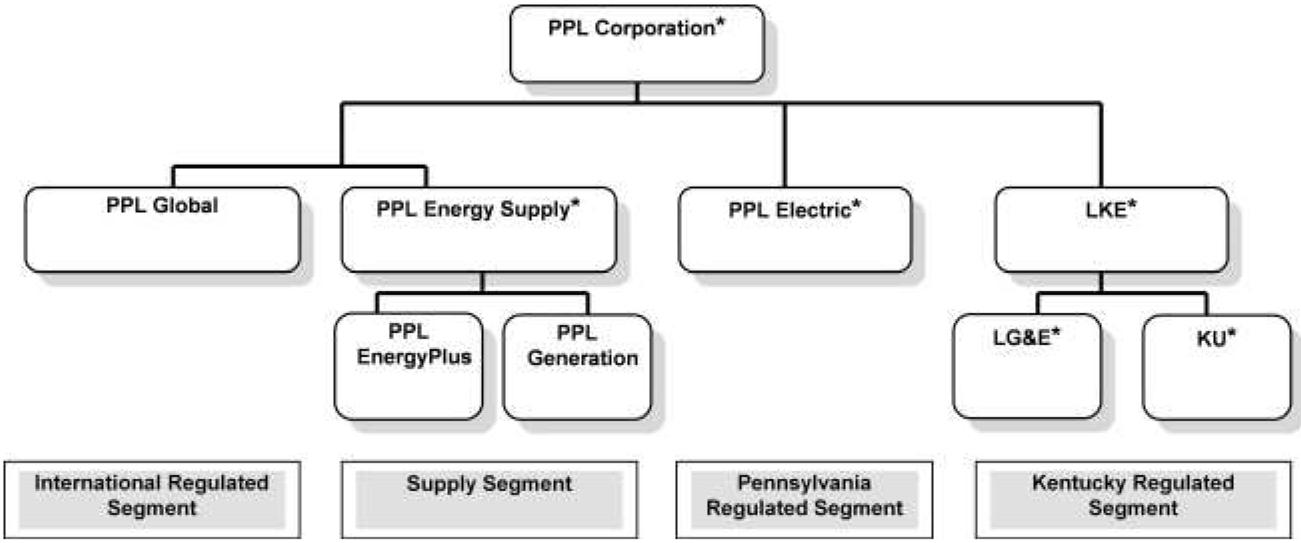
Overview

Introduction

PPL is an energy and utility holding company with headquarters in Allentown, Pennsylvania. Through subsidiaries, PPL generates electricity from power plants in the northeastern, northwestern and southeastern U.S., markets wholesale or retail energy primarily in the northeastern and northwestern portions of the U.S., delivers electricity to customers in Pennsylvania, Kentucky, Virginia, Tennessee and the U.K. and delivers natural gas to customers in Kentucky.

In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to its parent, PPL Energy Funding (the parent holding company of PPL Energy Supply and PPL Global with no other material operations), to better align PPL's organizational structure with the manner in which it manages its businesses and reports segment information in its consolidated financial statements. The distribution separated the U.S.-based competitive energy marketing and supply business from the U.K.-based regulated electricity distribution business. The following chart depicts the organizational structure subsequent to this distribution and illustrates how PPL's principal subsidiaries align with PPL's reportable segments. After distributing PPL Global to its parent, PPL Energy Supply and its subsidiaries' operations are entirely within the Supply segment.

Subsequent to the distribution of PPL Global, PPL's principal subsidiaries are shown below (* denotes an SEC registrant - LKE, LG&E and KU became SEC Registrants effective June 1, 2011):



Business Strategy

PPL's overall strategy is to achieve stable, long-term growth in its regulated electricity delivery businesses through efficient operations and strong customer and regulatory relations, and disciplined growth in energy supply margins while mitigating volatility in both cash flows and earnings. In pursuing this strategy, PPL acquired LKE in November 2010 and WPD Midlands in April 2011. These acquisitions have reduced PPL's overall business risk profile and reapportioned the mix of PPL's regulated and competitive businesses by increasing the regulated portion of its business and enhancing rate-regulated growth opportunities as the regulated businesses make investments to improve infrastructure and customer reliability.

The increase in regulated assets is expected to provide earnings stability through regulated returns and the ability to recover costs of capital investments, in contrast to the competitive energy supply business where earnings and cash flows are subject to commodity market volatility. Following the LKE and WPD Midlands acquisitions, approximately 70% of PPL's assets are in its regulated businesses. The pro forma impacts of the acquisitions of LKE and WPD Midlands on PPL's income from continuing operations (after income taxes) for the six months ended June 30 are as follows:

	2011				2010			
	Pro forma		Actual		Pro forma		Actual	
Regulated	$ 510	62%	$ 393	56%	$ 387	70%	$ 184	52%
Competitive	310	38%	310	44%	167	30%	167	48%
	$ 820		$ 703		$ 554		$ 351	

Note: Pro forma and actual amounts exclude non-recurring adjustments identified in Note 8 to the Financial Statements.

Accordingly, results for periods prior to the acquisitions of LKE and WPD Midlands are not comparable with, or indicative of, results for periods subsequent to the acquisitions.

With the purchase of WPD Midlands and the related growth of the portion of PPL's overall earnings translated from British pounds sterling, the related foreign currency risk is more substantial. The U.K. subsidiaries also have currency exposure to the U.S. dollar to the extent they have U.S. dollar denominated debt. To manage these risks PPL generally uses contracts such as forwards, options and cross currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts.

PPL's strategy for its competitive energy supply business is to optimize the value from its unregulated generation and marketing portfolio. PPL endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits, while managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk.

Financial and Operational Highlights

Net Income Attributable to PPL Corporation

Net Income attributable to PPL Corporation for the three and six months ended June 30, 2011 was $196 million and $597 million compared to $85 million and $335 million for the same periods in 2010. This represents a 131% and 78% increase over 2010. These increases reflect the following after-tax impacts by segment:

	Three Months	Six Months
Kentucky Regulated		
Segment earnings	$ 31	$ 106
LKE acquisition-related costs	19	19
International Regulated		
WPD Midlands earnings	57	57
WPD Midlands acquisition-related costs	(81)	(100)
Pennsylvania Regulated		
PPL Electric's distribution base rate increase effective in January 2011	8	22
Supply		
Net unrealized gains on energy-related economic activity	51	133
2010 net losses related to the monetization of certain full-requirement sales contracts due to the LKE acquisition	36	36
Recovery from the litigation settlement recorded in 2011 related to spent nuclear fuel storage	29	29
Impact of Susquehanna station turbine blade replacement outages	(60)	(60)
Other	21	20
	$ 111	$ 262

See "Results of Operations" below for further discussion and analysis of the consolidated results of operations, as well as a discussion of each of PPL's business segments.

Acquisition of WPD Midlands

On April 1, 2011, PPL, through its indirect wholly owned subsidiary PPL WEM, acquired Central Networks, which operates two regulated distribution networks that serve five million end users in the Midlands area of England, for $6.6 billion, including long-term debt assumed through the acquisition. Subsequent to the close of the acquisition, the entities acquired were renamed and are collectively referred to as WPD Midlands. The service territories of PPL WW and WPD Midlands are contiguous and significant cost savings, efficiencies and other benefits are expected from the combined operation of these entities.

The cash consideration of $5.8 billion was primarily funded by borrowings under the 2011 Bridge Facility. The following permanent financing was completed in the second quarter of 2011 to repay 2011 Bridge Facility borrowings, pay certain acquisition-related fees and raise additional capital for general corporate purposes.

- PPL issued 92 million shares of its common stock and received net proceeds of $2.258 billion.
- PPL issued 19.55 million 2011 Equity Units and received net proceeds of $948 million.
- PPL WEM issued $460 million of 3.90% Senior Notes due 2016 and $500 million of 5.375% Senior Notes due 2021 and received net proceeds of $953 million.
- WPD (West Midlands) issued £800 million of 5.75% Senior Notes due 2032 and WPD (East Midlands) issued £600 million of 5.25% Senior Notes due 2023. Collectively, net proceeds of £1.4 billion were received, which equated to $2.2 billion at the time of issuance.
- WPD (East Midlands) issued £100 million of Index-Linked Notes due 2043 and received net proceeds of £99 million, which equated to $163 million at the time of issuance.

At June 30, 2011, PPL incurred acquisition-related costs of approximately $130 million, pre tax, which includes, among other items, advisory, accounting and legal fees, taxes and certain financing costs, including gains on hedges and foreign currency losses on the 2011 Bridge Facility.

Under a reorganization announced by WPD in June 2011, approximately 600 to 800 employees of WPD Midlands will be terminated as a new regional structure is implemented. The categories of separation costs to be associated with the reorganization are severance compensation, early retirement deficiency costs associated with the applicable pension plans, outplacement services and other legal and administrative expenses. Other than the costs for outplacement services, there is considerable uncertainty in estimating the range of costs that will ultimately be incurred, as the amount of each of those cost categories will depend on the number of persons leaving the company, their current compensation level, years of service, age and the terms of the applicable pension plan in which they participate. As a result, a range of the total separation costs associated with the reorganization cannot be reasonably estimated at this time; however, separation costs are not expected to exceed $140 million. Such separation costs will be recognized primarily in the third and fourth quarters of 2011.

See Note 8 to the Financial Statements for additional information related to the acquisition and Note 7 to the Financial Statements for additional information related to the financings.

Foreign Currency Exchange Rates

PPL is exposed to foreign currency risk, primarily through its investment in U.K. affiliates. PPL has adopted a foreign currency risk management program designed to hedge certain currency exposures, including the risk associated with translating earnings and dividends from the U.K. affiliates, firm commitments, recognized assets or liabilities, other anticipated transactions and net investments.

Registration of Debt by LKE, LG&E and KU

In April 2011, LKE, LG&E and KU each filed a Registration Statement with the SEC, as agreed to in registration rights agreements entered into in connection with the issuances of senior notes and first mortgage bonds in November 2010 in transactions not registered under the Securities Act of 1933. The 2011 Registration Statements relate to offers to exchange the senior notes or first mortgage bonds issued in November 2010 with similar but registered securities. The 2011 Registration Statements became effective in June 2011, and the exchanges were completed in July 2011 with substantially all of LKE's senior notes and LG&E's and KU's first mortgage bonds being exchanged. See Note 7 in PPL's 2010 Form 10-K for additional information on the original debt issuances.

Susquehanna Turbine Blade Replacement

In April 2011, during the PPL Susquehanna Unit 2 scheduled refueling and generation uprate outage, a planned inspection of the Unit 2 turbine revealed cracks in certain of its low pressure turbine blades. Replacement of these blades was required, but was not anticipated as part of the original scope of this outage. The necessary replacement work extended the Unit 2 outage by six weeks. As a precaution, PPL Susquehanna also took Unit 1 out of service in mid-May to inspect the turbine blades in that unit. This inspection revealed cracks in blades similar to those found in Unit 2. The duration of the Unit 1 outage, in which turbine blades were replaced, was also about six weeks. PPL Susquehanna currently estimates the after-tax earnings impact, including reduced energy-sales margins and repair expense for both units, to be between $60 million and $65 million. The majority of these costs were incurred during the second quarter of 2011.

Legal and Regulatory Matters

Federal

Cross State Air Pollution Rule

In July 2011, the EPA signed the CSAPR which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. This rule applies to PPL's Pennsylvania and Kentucky plants. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions. PPL's initial review of the allocations under the CSAPR indicates that greater reductions in sulfur dioxide emissions will be required beginning in 2012 under the CSAPR than were required under the CAIR starting in 2015.

For the initial phase of the rule beginning in 2012, sulfur dioxide allowance allocations are expected to meet the forecasted emissions based on present operations of existing scrubbers and coal supply. However, for the second phase beginning in 2014, PPL will likely have to modify operations of its generation fleet at its Pennsylvania plants and at its Kentucky plants will likely have to take additional measures with regards to the operation and dispatch of its generating fleet, including upgrades or installation of new scrubbers for certain generating units or retirement of certain other units.

With respect to nitrogen oxide emissions, the CSAPR provides a slightly higher amount of allowances for PPL's Pennsylvania plants, but still less than the current forecasted emissions and a slightly lower amount of allowances for the Kentucky plants. With uncertainty surrounding the trading program, other compliance options are being analyzed for the Pennsylvania and Kentucky fleets, such as the installation of new technology or modifications of plant operations and the retirement of certain units for the Kentucky fleet. LG&E and KU are seeking recovery of their expected costs to comply with the CSAPR and certain other EPA requirements through the ECR plan filed with the KPSC in June 2011.

Additionally, PPL's plants, including those in Montana, may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. PPL anticipates that some of the measures required for compliance with CSAPR such as upgraded or new scrubbers at some of its plants and retirement of certain units may also be necessary to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the economic impact to PPL could be significant. See Notes 6 and 10 to the Financial Statements for additional information on the CSAPR and the regulatory proceeding.

Spent Nuclear Fuel Litigation

In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna station. Under the settlement agreement, PPL Susquehanna received approximately $50 million for its share of claims to recover its costs to store spent nuclear fuel at the Susquehanna station through September 2009 and will be eligible to receive payment of annual claims for allowed costs that are incurred thereafter through the December 2013 termination of the settlement agreement. See Note 10 to the Financial Statements for additional information.

<u>Kentucky and Virginia</u>

Integrated Resource Plan (IRP) Filing

LG&E and KU filed their joint IRP with the KPSC in April 2011. This plan is provided to the KPSC every three years and is intended to give the KPSC a point-in-time look at LG&E's and KU's expectation of future resource needs. It does not represent a commitment or decision by LG&E or KU, nor does it represent a request for approval.

Impending environmental regulation including the CSAPR, Ambient Air Quality Standards, the Maximum Achievable Control Technology Rule, the Coal Combustion Residuals Rule and the Cooling Water Intake Rule could result in the retirements of older, smaller coal-fired units and therefore the IRP assumes potential retirements of coal-fired capacity and replacement by combined-cycle gas units. In addition, the IRP assumes peak demand reductions through existing or expanded DSM or energy efficiency programs. See Notes 6 and 10 to the Financial Statements for additional information.

ECR Filing - Environmental Upgrades

In June 2011, in order to achieve compliance with new and pending mandated federal EPA regulations, LG&E and KU filed an ECR plan with the KPSC requesting approval to install environmental upgrades for certain of their coal-fired plants along with the recovery of the expected $2.5 billion in costs. The ECR plan details many upgrades that will be made to certain of their coal-fired generating stations to continue to be compliant with EPA regulations. See Note 6 to the Financial Statements for additional information.

<u>Pennsylvania</u>

Legislation - Regulatory Procedures and Mechanisms

In June 2011, the Pennsylvania House Consumer Affairs Committee approved legislation that would authorize the PUC to approve regulatory procedures and mechanisms to provide for more timely recovery of a utility's costs. Alternative ratemaking is important for PPL Electric as it begins an era of significant increasing capital investment related to the asset optimization program focused on the replacement of aging distribution assets. Those procedures and mechanisms include, but are not limited to, the use of a fully projected test year and an automatic adjustment clause to recover capital costs and related operating expenses. The legislation is now before the full Pennsylvania House of Representatives. PPL Electric is working with other stakeholders to support passage of this legislation.

<u>Montana</u>

Montana Hydroelectric Litigation

In June 2011, the U.S. Supreme Court granted PPL Montana's petition to review the March 2010 Montana Supreme Court decision substantially affirming the June 2008 Montana District Court decision to award the State of Montana retroactive compensation for PPL Montana's hydroelectric facilities' use and occupancy of certain riverbeds in Montana. The matter will be briefed on its merits, with oral argument likely to occur in late November or early December 2011 and a decision is likely to be rendered by the Court by June 30, 2012. The stay of judgment granted during the proceedings before the Montana

Supreme Court has been extended by agreement with the State of Montana to cover the anticipated period of the proceeding before the U.S. Supreme Court. See Note 10 to the Financial Statements for additional information.

U.K.

Tax Rate Change

In July 2011, the U.K. Finance Act 2011 was enacted. The most significant change to the law was a reduction in the U.K.'s statutory income tax rate. The statutory tax rate was changed from 27% to 26%, effective April 1, 2011 and from 26% to 25%, effective April 1, 2012. As a result of these changes, PPL expects to record a deferred tax benefit in the range of $65 million to $75 million in the third quarter of 2011.

Ofgem Pricing Model

In October 2010, Ofgem announced a new pricing model that will be effective for the U.K. electricity distribution sector, including WPD, beginning April 2015. The model, known as RIIO (Revenues = Incentives + Innovation + Outputs), is intended to encourage investment in regulated infrastructure. Key components of the model are: an extension of the price review period from five to eight years; increased emphasis on outputs and incentives; enhanced stakeholder engagement including network customers; a stronger incentive framework to encourage more efficient investment and innovation; expansion of the current Low Carbon Network Fund to stimulate innovation; and continued use of a single weighted average cost of capital.

Results of Operations

As a result of the LKE acquisition on November 1, 2010 and the WPD Midlands acquisition on April 1, 2011, LKE's and WPD Midlands' results (since the date of acquisition) for the three and six months ended June 30, 2011 are included in PPL's results. When discussing PPL's results of operations for 2011 compared with 2010, the results of LKE and WPD Midlands are isolated for purposes of comparability. LKE's results are included within "Segment Results - Kentucky Regulated Segment" and WPD Midlands' results are included within "Segment Results - International Regulated Segment." The results of WPD (including WPD Midlands) are recorded on a one-month lag.

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods.

Tables analyzing changes in amounts between periods within "Segment Results" and "Statement of Income Analysis" are presented on a constant U.K. foreign currency exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant U.K. foreign currency exchange rate basis are calculated by translating current year results at the prior year weighted-average foreign currency exchange rate.

Earnings

Net Income Attributable to PPL Corporation and related EPS for the periods ended June 30 was:

	Three Months		Six Months	
	2011	2010	2011	2010
Net Income Attributable to PPL Corporation	$ 196	$ 85	$ 597	$ 335
EPS - basic	$ 0.35	$ 0.22	$ 1.14	$ 0.88
EPS - diluted	$ 0.35	$ 0.22	$ 1.14	$ 0.88

The changes in Net Income Attributable to PPL Corporation from period to period were, in part, attributable to the acquisitions of LKE and WPD Midlands and several items that management considers special. Details of these special items are provided within the review of each segment's earnings.

Segment Results

Net Income Attributable to PPL Corporation by segment for the periods ended June 30 was:

	Three Months		Six Months	
	2011	2010	2011	2010
Kentucky Regulated	$ 31		$ 106	
International Regulated (a)	38	$ 58	93	$ 134
Pennsylvania Regulated	36	16	88	53
Supply	91	30	310	167
Unallocated Costs (b)		(19)		(19)
Total	$ 196	$ 85	$ 597	$ 335

(a) As a result of the acquisition on April 1, 2011, WPD Midlands' results are included in the 2011 amounts.
(b) The three and six months ended June 30, 2010 includes $7 million, pre-tax ($6 million, after-tax), of certain acquisition-related costs, including advisory, accounting, and legal fees associated with the acquisition of LKE that are recorded in "Other Income (Expense)-net" on the Statement of Income. Also included is $22 million, pre-tax ($13 million after-tax), of amortization of deferred 2010 Bridge Facility financing costs that are recorded in "Interest Expense" on the Statement of Income. See Notes 7 and 10 in PPL's 2010 Form 10-K for additional information on the acquisition and related financing. These costs were considered special items by management and were not included within any segment's results.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's results from the operation of regulated electricity generation, transmission and distribution assets, primarily in Kentucky, as well as in Virginia and Tennessee. This segment also includes LKE's results from the regulated distribution and sale of natural gas in Kentucky.

Kentucky Regulated segment Net Income Attributable to PPL Corporation for the periods ended June 30, 2011 was:

	Three Months	Six Months
Operating revenues	$ 638	$ 1,404
Fuel and energy purchases	246	568
Other operation and maintenance	198	379
Depreciation	84	165
Taxes, other than income	9	18
Total operating expenses	537	1,130
Other Income (Expense) - net		(1)
Interest Expense (a)	54	108
Income Taxes	16	59
Net Income Attributable to PPL Corporation	$ 31	$ 106

(a) The three and six months ended June 30, 2011 include allocated interest expense of $17 million and $35 million, pre tax, related to the 2010 Equity Units and certain interest rate swaps.

Outlook

Excluding special items, and the impact of a full year of earnings versus two months in 2010, earnings are expected to be higher in 2011, driven by the impact of electricity and natural gas base rate increases that were effective August 1, 2010.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements and "Part II. Other Information - Item 1A. Risk Factors" in this Form 10-Q and "Item 1. Business," and "Item 1A. Risk Factors" in PPL's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

International Regulated Segment

The International Regulated segment consists primarily of the electric distribution operations in the U.K. As a result of the acquisition on April 1, 2011, WPD Midlands' results are included in the 2011 results.

International Regulated segment Net Income Attributable to PPL Corporation for the periods ended June 30 was:

	Three Months			Six Months		
	2011	2010	% Change	2011	2010	% Change
Utility revenues	$ 203	$ 172	18	$ 419	$ 375	12
Energy-related businesses	10	6	67	19	16	19
Total operating revenues	213	178	20	438	391	12
Other operation and maintenance	49	39	26	91	83	10
Depreciation	32	29	10	62	58	7
Taxes, other than income	13	13		26	27	(4)
Energy-related businesses	4	4		8	8	
Total operating expenses	98	85	15	187	176	6
Other Income (Expense) - net	5	1	400	3	2	50
Interest Expense	45	33	36	85	64	33
Income Taxes	13	3	333	33	19	74
WPD Midlands, net of tax (a)	57		n/a	57		n/a
WPD Midlands acquisition-related costs, net of tax (b)	(81)		n/a	(100)		n/a
Net Income Attributable to PPL Corporation	$ 38	$ 58	(34)	$ 93	$ 134	(31)

(a) Represents the operations of WPD Midlands, including $12 million (pre-tax) of interest expense on the 2011 Bridge Facility and $10 million (pre-tax) of interest expense related to the 2011 Equity Units as well as revenue from external customers of $207 million for the three and six months ended June 30, 2011.
(b) Represents items considered special by management.

The changes in the components of Net Income Attributable to PPL Corporation between the periods ended June 30, 2011 and 2010 were primarily due to the following factors. The amounts for PPL WW are presented on a constant U.K. foreign currency exchange rate basis in order to isolate the impact of the change in the exchange rate.

	Three Months	Six Months
PPL WW		
Utility revenues	$ 15	$ 31
Interest expense	(6)	(15)
Income taxes	(7)	(8)
Foreign currency exchange rates	5	4
Other		(2)
WPD Midlands, after-tax	57	57
U.S.		
Income taxes	(1)	(5)
Other	(4)	(4)
Special items, after-tax	(79)	(99)
Total	$ (20)	$ (41)

PPL WW

- Higher utility revenues for both periods resulting from a price increase in April 2011 ($20 million and $22 million for the three and six-month periods). In addition, the six-month period was higher due to a $12 million charge recorded in the first quarter of 2010 reflecting the impact on regulatory allowed revenues, primarily resulting from changes in the network electricity line loss assumptions. Such charges were insignificant in the first quarter of 2011.

- Higher U.K. interest expense for the six-month period primarily due to higher debt balances arising from a March 2010 debt issuance ($11 million).

The following after-tax amounts, which management considers special items, also impacted the segment's earnings for the periods ended June 30.

	Income Statement Line Item	Three Months 2011	Three Months 2010	Six Months 2011	Six Months 2010
Special Items, net of tax benefit (expense):					
Foreign currency-related economic hedges, net of tax of ($1), $1, ($0), $1 (a)	Other Income (Expense)	$ 1	$ (1)		$ (1)
WPD Midlands acquisition-related costs:					
2011 Bridge Facility costs, net of tax of $11, $0, $13, $0 (b)	Interest Expense	(25)		$ (30)	
Foreign currency loss on 2011 Bridge Facility, net of tax of $19, $0, $19, $0 (c)	Other Income (Expense)	(39)		(39)	
Net hedge gains, net of tax of ($20), $0, ($17), $0 (c)	Other Income (Expense)	43		39	
Hedge ineffectiveness, net of tax of $3, $0, $3, $0 (d)	Interest Expense	(9)		(9)	
U.K. stamp duty tax, net of tax of $0, $0, $0, $0 (e)	Other Income (Expense)	(21)		(21)	
Other acquisition-related costs, net of tax of $12, $0, $12, $0	(f)	(30)		(40)	
Total		$ (80)	$ (1)	$ (100)	$ (1)

(a) Represents unrealized losses on contracts that economically hedge anticipated earnings denominated in GBP.
(b) Represents fees incurred in connection with establishing the 2011 Bridge Facility. See Note 7 to the Financial Statements for additional information.
(c) Represents the foreign currency loss on the repayment of the 2011 Bridge Facility, including a pre-tax foreign currency loss of $15 million associated with proceeds received on the U.S. dollar-denominated senior notes issued by PPL WEM in April 2011 that were used to repay a portion of PPL WEM's borrowing under the 2011 Bridge Facility. The foreign currency risk was economically hedged with forward contracts to purchase GBP, which resulted in pre-tax gains of $63 million and $56 million for the three and six-month periods. See Notes 7 and 14 to the Financial Statements for additional information.
(d) Represents a combination of ineffectiveness associated with closed out interest rate swaps and a charge recorded as a result of certain interest rate swaps failing hedge effectiveness testing. See Note 14 to the Financial Statements for additional information.
(e) Tax on the transfer of ownership of property in the U.K. which is not tax deductible for income tax purposes.
(f) Primarily includes advisory, accounting and legal fees ($26 million and $36 million, pre tax, for the three and six-month periods), which are reflected in "Other Income (Expense) - net" on the Statements of Income and certain separation costs ($6 million, pre-tax, for both periods), which are reflected in "Other operation and maintenance" on the Statements of Income.

Outlook

Excluding special items and the impact of the newly acquired U.K. businesses, earnings are expected to be higher in 2011, compared with 2010, due to higher electricity delivery revenue and a more favorable currency exchange rate, partially offset by higher income taxes, depreciation and financing costs.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Note 10 to the Financial Statements and "Part II. Other Information - Item 1A. Risk Factors" in this Form 10-Q and "Item 1. Business," and "Item 1A. Risk Factors" in PPL's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electric delivery operations of PPL Electric.

Pennsylvania Regulated segment Net Income Attributable to PPL Corporation for the periods ended June 30 was:

	Three Months 2011	Three Months 2010	Three Months % Change	Six Months 2011	Six Months 2010	Six Months % Change
Operating revenues						
External	$ 436	$ 520	(16)	$ 990	$ 1,331	(26)
Intersegment	4	2	100	8	4	100
Total operating revenues	440	522	(16)	998	1,335	(25)
Energy purchases						
External	169	209	(19)	420	619	(32)
Intersegment	4	64	(94)	10	179	(94)
Other operation and maintenance	126	131	(4)	256	251	2
Depreciation	37	33	12	70	67	4
Taxes, other than income	22	29	(24)	57	76	(25)
Total operating expenses	358	466	(23)	813	1,192	(32)
Other Income (Expense) - net	1	2	(50)	1	4	(75)
Interest Expense	24	24		48	50	(4)
Income Taxes	19	11	73	42	32	31
Net Income	40	23	74	96	65	48
Net Income Attributable to Noncontrolling Interests	4	7	(43)	8	12	(33)
Net Income Attributable to PPL Corporation	$ 36	$ 16	125	$ 88	$ 53	66

The changes in the components of Net Income Attributable to PPL Corporation between the periods ended June 30, 2011 and 2010 were primarily due to the following factors.

	Three Months	Six Months
Pennsylvania gross delivery margins	$ 19	$ 48
Other operation and maintenance	11	(3)
Income taxes	(8)	(10)
Other	(2)	
Total	$ 20	$ 35

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of gross margins from the Pennsylvania regulated electric delivery operations.

- Lower other operation and maintenance expense for the three-month period primarily due to $8 million in lower vegetation management costs. In addition, the three-month period was also impacted by $10 million in restoration costs associated with May 2011 storms, which was partially offset by an $8 million insurance recovery.

  Higher other operation and maintenance expense for the six-month period primarily due to $7 million in higher contractor expenses as a result of increased project work and $10 million in higher restoration costs associated with May 2011 storms, partially offset by an $8 million insurance recovery and $8 million in lower vegetation management costs.

- Higher income taxes for both periods primarily due to higher pre-tax book income of $11 million and $17 million for the three and six-month periods, partially offset by the impact of flow-through regulated tax depreciation that is primarily related to the Pennsylvania Department of Revenue interpretive guidance regarding 100% bonus depreciation of $2 million and $7 million for the three and six-month periods.

Outlook

Earnings are expected to be higher in 2011, compared with 2010, due to higher distribution revenues resulting from the distribution base rate increase effective January 1, 2011.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements and "Part II. Other Information - Item 1A. Risk Factors" in this Form 10-Q and "Item 1. Business," and "Item 1A. Risk Factors" in PPL's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Supply Segment

The Supply segment primarily consists of the energy marketing and trading activities, as well as the competitive generation and development operations of PPL Energy Supply. In 2011 and 2010, PPL Energy Supply subsidiaries completed the sale of several businesses, which have been classified as Discontinued Operations. See Note 8 to the Financial Statements for additional information.

Supply segment Net Income Attributable to PPL Corporation for the periods ended June 30 was:

	Three Months			Six Months		
	2011	2010	% Change	2011	2010	% Change
Energy revenues						
External (a)	$ 879	$ 671	31	$ 2,132	$ 2,569	(17)
Intersegment	4	64	(94)	10	179	(94)
Energy-related businesses	116	104	12	228	188	21
Total operating revenues	999	839	19	2,370	2,936	(19)
Fuel and energy purchases						
External (a)	324	341	(5)	879	1,733	(49)
Intersegment				1	1	

	Three Months			Six Months		
	2011	2010	% Change	2011	2010	% Change
Other operation and maintenance	283	251	13	516	532	(3)
Depreciation	64	63	2	128	124	3
Taxes, other than income	15	11	36	31	22	41
Energy-related businesses	116	96	21	225	180	25
Total operating expenses	802	762	5	1,780	2,592	(31)
Other Income (Expense) - net	4	5	(20)	19	10	90
Other-Than-Temporary Impairments		3	(100)	1	3	(67)
Interest Expense	51	52	(2)	100	106	(6)
Income Taxes	58	4	1,350	200	93	115
Income (Loss) from Discontinued Operations	(1)	7	(114)	2	15	(87)
Net Income Attributable to PPL Corporation	$ 91	$ 30	203	$ 310	$ 167	86

(a) Includes impact from energy-related economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements for additional information.

The changes in Net Income Attributable to PPL Corporation between the periods ended June 30, 2011 and 2010 were primarily due to the following factors.

	Three Months	Six Months
U.S. non-trading margins	$ (128)	$ (200)
Other operation and maintenance	(36)	(38)
Other income (expense) - net	(2)	7
Income taxes	68	92
Other	(4)	(5)
Discontinued operations, excluding certain revenues and expenses included in margins	6	9
Special items, after-tax	157	278
Total	$ 61	$ 143

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.

- Higher other operation and maintenance expense for the three-month period was primarily due to the timing and increased costs of the PPL Susquehanna refueling outage of $36 million, $9 million from the dual-unit turbine blade replacement outages and $5 million from higher payroll costs at PPL Susquehanna, partially offset by $19 million in lower other operation and maintenance expense at eastern fossil/hydro facilities mainly due to the timing of the Montour planned maintenance outage.

  Higher other operation and maintenance expense for the six-month period was primarily due to increased costs of the PPL Susquehanna refueling outage of $10 million, $9 million from the dual-unit turbine blade replacement outages and $8 million from higher payroll costs at PPL Susquehanna.

- Higher other income (expense) - net for the six-month period was primarily due to $5 million of higher realized earnings on the NDT funds in 2011.

- Lower income taxes for both periods due to the impact of lower pre-tax book income of $73 million and $108 million for the three and six-month periods, partially offset by an $8 million and $12 million decrease in the domestic manufacturing deduction tax benefit for the three and six month periods resulting from revised bonus tax depreciation estimates. The six-month period was also offset by $19 million in state NOL valuation allowance adjustments including the impact of 100% bonus tax depreciation on future projected PA taxable income in 2011.

The following after-tax amounts, which management considers special items, also impacted the segment's earnings for the periods ended June 30.

	Income Statement Line Item	Three Months 2011	Three Months 2010	Six Months 2011	Six Months 2010
Special Items, net of tax benefit (expense):					
Adjusted energy-related economic activity, net, net of tax of $2, $39, ($10), $84	(a)	$ (3)	$ (54)	$ 14	$ (119)
Sales of assets:					
Sundance indemnification, net of tax of $0, $0, $0, $0	Other Income (Expense)		1		1
Non-core generation facilities, net of tax of $1, $0, $0, $0 (Note 8)	Discontinued Operations	(2)		(3)	
Impairments:					
Emission allowances, net of tax of $0, $3, $1, $5 (Note 13)	Other O&M		(5)	(1)	(7)
Renewable energy credits, net of tax of $0, $0, $2, $0 (Note 13)	Other O&M			(2)	
Adjustments - NDT investments, net of tax of $0, $0, ($1), $0 (b)	Other Income (Expense)			1	
LKE acquisition-related costs:					
Monetization of certain full-requirement sales contracts, net of tax of $0, $52, $0, $52	(c)		(75)		(75)
Other:					
Montana hydroelectric litigation, net of tax of $0, $0, $1, $21	(d)	(1)	(1)	(1)	(33)
Health care reform - tax impact (e)	Income Taxes				(8)
Litigation settlement - spent nuclear fuel storage, net of tax of ($21), $0, ($21), $0 (f)	Fuel	29		29	
Total		$ 23	$ (134)	$ 37	$ (241)

(a) See "Reconciliation of Economic Activity" below.
(b) Represents the reversal of previous other-than-temporary impairment charges when securities previously impaired were sold.
(c) See "Monetization of Certain Full-Requirement Sale Contracts" in Note 14 to the Financial Statements. For the three and six months ended June 30, 2010, $193 million, pre-tax was recorded to "Wholesale energy marketing" and $320 million, pre-tax was recorded to "Energy purchases" on the Statements of Income.
(d) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. As a result, in the first quarter of 2010, PPL Montana recorded a pre-tax charge of $56 million, representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. The portion of the total related to years prior to 2010 was $54 million. Of this total charge $49 million, pre-tax, was recorded to "Other operation and maintenance" and $7 million, pre-tax, was recorded to "Interest Expense" on the Statements of Income. The charges recorded for the three and six months ended June 30, 2011 and the three months ended June 30, 2010 were recorded to "Interest Expense" on the Statements of Income.
(e) Represents income tax expense recorded as a result of the provisions within Health Care Reform which eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage.
(f) In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna station. Under the settlement agreement, PPL Susquehanna received $50 million, pre-tax, for claims to recover its costs to store spent nuclear fuel at the Susquehanna station through September 2009.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) from the table within "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements to the special item identified as "Adjusted energy-related economic activity, net" for the periods ended June 30.

	Three Months 2011	Three Months 2010	Six Months 2011	Six Months 2010
Operating Revenues				
Unregulated retail electric and gas	$ 1	$ (2)	$ 5	$ 8
Wholesale energy marketing	(44)	(666)	13	(242)
Operating Expenses				
Fuel	(11)	(8)	12	(3)
Energy Purchases	109	445	127	(118)
Energy-related economic activity (a)	55	(231)	157	(355)
Option premiums (b)	6	11	11	25
Adjusted energy-related economic activity	61	(220)	168	(330)
Less: Unrealized economic activity associated with the monetization of certain full-requirement sales contracts (c)		(127)		(127)
Less: Economic activity now realized, associated with the monetization of certain full-requirement sales contracts in 2010	66		144	
Adjusted energy-related economic activity, net, pre-tax	$ (5)	$ (93)	$ 24	$ (203)
Adjusted energy-related economic activity, net, after-tax	$ (3)	$ (54)	$ 14	$ (119)

(a) See Note 14 to the Financial Statements for additional information.
(b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. After-tax gains for the three months ended June 30, 2011 and 2010 were $3 million and $6 million, and $6 million and $14 million for the six months ended June 30, 2011 and 2010. Option premiums are recorded in Wholesale energy marketing - realized and Energy purchases - realized on the Statements of Income.
(c) See "Commodity Price Risk – (Non-trading) - Monetization of Certain Full-Requirement Sales Contracts" in Note 14 to the Financial Statements for additional information. This item includes the $60 million loss ($36 million after tax) referenced in Note 14 to the Financial Statements associated with full-requirement sales contracts that have been monetized. Also included in this item is a net loss of $67 million ($39 million after tax) on economic activity related to these full-requirement sales contracts. Such amount was previously reflected in "Adjusted energy-related economic activity, net."

Outlook

Excluding special items, earnings are expected to be lower in 2011, when compared with 2010, driven by lower energy margins resulting from lower Eastern energy and capacity prices, higher average fuel costs and the turbine blade replacement outages at PPL Susquehanna's nuclear plant, as well as higher income taxes and higher operation and maintenance expense.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Note 10 to the Financial Statements and "Part II. Other Information - Item 1A. Risk Factors" in this Form 10-Q and "Item 1. Business," and "Item 1A Risk Factors" in PPL's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measures

The following discussion includes financial information prepared in accordance with GAAP, as well as three non-GAAP financial measures: "Kentucky Gross Margins," "Pennsylvania Gross Delivery Margins" and "Unregulated Gross Energy Margins." These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL believes that these measures provide additional criteria to make investment decisions. These performance measures are used, in conjunction with other information, internally by senior management and the Board of Directors to manage the Kentucky Regulated, Pennsylvania Regulated and Supply segment operations, analyze each respective segment's actual results compared to budget and, in certain cases, to measure certain corporate financial goals used in determining variable compensation.

PPL's three non-GAAP financial measures include:

- "Kentucky Gross Margins" is a single financial performance measure of the Kentucky Regulated segment's electricity generation, transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expense and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. These mechanisms allow for recovery of certain expenses, returns on capital investments associated with environmental regulations and performance incentives. As a result, this measure represents the net revenues from the Kentucky Regulated segment's operations.

- "Pennsylvania Gross Delivery Margins" is a single financial performance measure of the Pennsylvania Regulated segment's electric delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," which is primarily Act 129 costs, and in "Taxes, other than income," which is primarily gross receipts tax. This performance measure includes PLR related energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "PLR intersegment utility revenue (expense)" in the table below. These mechanisms allow for recovery of certain expenses; therefore, certain expenses and revenues offset with minimal impact on earnings. As a result, this measure represents the net revenues from the Pennsylvania Regulated segment's electric delivery operations.

- "Unregulated Gross Energy Margins" is a single financial performance measure of the Supply segment's competitive energy non-trading and trading activities. In calculating this measure, the Supply segment's energy revenues, which include operating revenues associated with certain Supply segment businesses that are classified as discontinued operations, are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges, gross receipts tax, which is recorded in "Taxes, other than income," and operating expenses associated with certain Supply segment businesses that are classified as discontinued operations. This performance measure is relevant to PPL due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant swings in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Wholesale energy marketing" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are reflected in "PLR intersegment utility revenue (expense)" in the table below. In addition, PPL excludes from "Unregulated Gross Energy Margins" the Supply segment's energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of PPL's competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Also included in this energy-related economic activity is the ineffective portion of qualifying cash flow hedges, the monetization of certain full-requirement sales contracts and premium amortization associated with options. This economic activity is deferred, with the exception of the full-requirement sales contracts that were monetized, and included in unregulated gross energy margins over the delivery period that was hedged or upon realization.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to PPL's three non-GAAP financial measures for the periods ended June 30.

	2011 Three Months					2010 Three Months				
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues										
Utility	$ 639	$ 436		$ 409 (c)	$ 1,484		$ 520		$ 172 (c)	$ 692
PLR intersegment Utility revenue (expense) (d)		(4)	$ 4				(64)	$ 64		
Unregulated retail electric and gas			180	1 (e)	181			103	(2) (e)	101
Wholesale energy marketing										
Realized			716	16 (e)	732			1,219	12 (e)	1,231
Unrealized economic activity				(44) (e)	(44)				(666) (e)	(666)
Net energy trading margins			10		10			5		5
Energy-related businesses				126	126				110	110
Total Operating Revenues	639	432	910	508	2,489		456	1,391	(374)	1,473
Operating Expenses										
Fuel	206		250	(42) (f)	414			252	6	258
Energy purchases										
Realized	40	169	150	75 (g)	434		209	529	(1) (g)	737
Unrealized economic activity				(109) (g)	(109)				(445) (g)	(445)
Other operation and maintenance	21	29	9	664	723		23	6	390	419
Depreciation	12			225	237				125	125
Taxes, other than income		20	7	48	75		27	4	22	53
Energy-related businesses				120	120				100	100
Intercompany eliminations		(4)	1	3			(2)		2	
Total Operating Expenses	279	214	417	984	1,894		257	791	199	1,247
Discontinued operations								21	(21) (h)	
Total	$ 360	$ 218	$ 493	$ (476)	$ 595		$ 199	$ 621	$ (594)	$ 226

	2011 Six Months					2010 Six Months				
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues										
Utility	$ 1,404	$ 990		$ 626 (c)	$ 3,020		$ 1,331		$ 375 (c)	$ 1,706
PLR intersegment Utility revenue (expense) (d)		(10)	$ 10				(179)	$ 179		
Unregulated retail electric and gas			323	5 (e)	328			197	8 (e)	205
Wholesale energy marketing										
Realized			1,738	32 (e)	1,770			2,565	25 (e)	2,590
Unrealized economic activity				13 (e)	13				(242) (e)	(242)
Net energy trading margins			21		21			16		16
Energy-related businesses				247	247				204	204
Total Operating Revenues	1,404	980	2,092	923	5,399		1,152	2,957	370	4,479
Operating Expenses										
Fuel	421		534	(66) (f)	889			489	(1)	488
Energy purchases										
Realized	147	420	377	161 (g)	1,105		619	1,130	(3) (g)	1,746
Unrealized economic activity				(127) (g)	(127)				118 (g)	118
Other operation and maintenance	41	47	13	1,205	1,306		45	13	805	863
Depreciation	24			421	445				249	249
Taxes, other than income		53	14	81	148		72	6	47	125
Energy-related businesses				233	233				188	188
Intercompany eliminations		(8)	2	6			(4)	1	3	
Total Operating Expenses	633	512	940	1,914	3,999		732	1,639	1,406	3,777
Discontinued operations			12	(12) (h)				46	(46) (h)	
Total	$ 771	$ 468	$ 1,164	$ (1,003)	$ 1,400		$ 420	$ 1,364	$ (1,082)	$ 702

(a) Represents amounts that are excluded from Margins.
(b) As reported on the Statement of Income.
(c) Represents WPD's utility revenue.
(d) Primarily related to PLR supply sold by PPL EnergyPlus to PPL Electric.
(e) Represents revenue associated with energy-related economic activity. This activity is described in the "Commodity Price Risk (Non-trading) - Economic Activity" section of Note 14 to the Financial Statements. The three and six months ended June 30, 2011 includes a pre-tax gain of $6 million and $12 million related to the amortization of option premiums and a pre-tax realized gain of $10 million and $20 million related to the monetization of certain full-requirement sales contracts. In addition, the three and six months ended June 30, 2010 includes a pre-tax gain of $12 million and $25 million related to the amortization of option premiums.
(f) Primarily relates to the $50 million spent nuclear fuel litigation settlement and economic activity related to fuel.
(g) Represents expenses associated with energy-related economic activity. This activity is described in the "Commodity Price Risk (Non-trading) - Economic Activity" section of Note 14 to the Financial Statements. The six months ended June 30, 2011 includes a pre-tax loss of $1 million related to the amortization of option premiums and the three and six months ended June 30, 2011 includes a pre-tax loss of $76 million and $164 million related to the monetization of certain full-requirement sales contracts. In addition, the three months ended June 30, 2010 includes a pre-tax loss of $1 million related to the amortization of option premiums.
(h) Represents the net of certain revenues and expenses associated with certain businesses that are classified as discontinued operations. These revenues and expenses are not reflected in "Operating Income" on the Statements of Income.

Changes in Non-GAAP Financial Measures

The following table shows PPL's three non-GAAP financial measures for the periods ended June 30 as well as the change between periods. The factors that gave rise to the changes are described below the table.

	Three Months			Six Months		
	2011	2010	Change	2011	2010	Change
Kentucky Gross Margins	$ 360		$ 360	$ 771		$ 771
PA Gross Delivery Margins by Component						
Distribution	$ 173	$ 157	$ 16	$ 381	$ 336	$ 45
Transmission	45	42	3	87	84	3
Total	$ 218	$ 199	$ 19	$ 468	$ 420	$ 48
Unregulated Gross Energy Margins by Region						
Non-trading						
Eastern U.S.	$ 395	$ 528	$ (133)	$ 972	$ 1,177	$ (205)
Western U.S.	88	88		171	171	
Net energy trading	10	5	5	21	16	5
Total	$ 493	$ 621	$ (128)	$ 1,164	$ 1,364	$ (200)

Kentucky Gross Margins

PPL acquired LKE on November 1, 2010. Margins for the three and six months ended June 30, 2011 are included in PPL's results with no comparable amounts for 2010.

Pennsylvania Gross Delivery Margins

Distribution

The approved distribution rate case increased rates approximately 1.6% effective January 1, 2011, which improved distribution margins by $14 million and $38 million for the three and six months ended June 30, 2011, compared with the same period in 2010. Increases of $1 million and $7 million resulted from favorable weather. Weather-related variances for PPL Electric are calculated based on a ten-year historical average.

Transmission

Transmission margins were higher during the three and six months ended June 30, 2011, compared with the same period in 2010, as the result of higher FERC formula-based rates driven by increased investment in rate base, an increase in the costs of capital due to an increase in equity and the recovery of additional costs.

Unregulated Gross Energy Margins

Eastern U.S. results were lower during the three and six months ended June 30, 2011, compared with the same period in 2010, as a result of lower margins on baseload units, primarily due to the timing of the planned refueling and up-rate outage and the unplanned turbine blade replacement outages at the Susquehanna nuclear plant of $91 million and $58 million, lower pricing (including lower PJM basis and FTR values) of $42 million and $94 million, higher supply costs from the generation fleet of $10 million and $15 million and lower margins on intermediate and peaking units driven by the assets sold in the first quarter of 2011 of $14 million and $16 million. Partially offsetting the decrease were higher margins from the full-requirement sales contracts of $33 million and $51 million. In addition, the unfavorable variance for the six months ended June 30, 2011, included gains of $27 million related to the monetization of certain full-requirement sales contracts in 2010 that rebalanced the business and portfolio.

Utility Revenues

Changes in utility revenues for the periods ended June 30, 2011 compared with 2010 were attributable to:

	Three Months	Six Months
Domestic:		
PPL Electric		
Decrease in energy revenue due to customers selecting alternative suppliers (a)	$ (106)	$ (388)
Price increase related to the distribution rate case effective January 1, 2011	14	38
Other	8	9
Total	(84)	(341)
LKE (b)	638	1,404
Total Domestic	554	1,063
U.K.:		
PPL WW		
Price increases effective April 1, 2011 and 2010	20	22
Change in recovery of allowed revenues (c)	3	12
Foreign currency exchange rates	16	13
Other	(8)	(3)
Total PPL WW	31	44
WPD Midlands (b)	207	207
Total U.K.	238	251
Total	$ 792	$ 1,314

(a) In 2011, customers continued to select alternative suppliers to provide their energy needs. This decrease in energy revenue has a minimal impact on earnings as the cost of providing this energy is passed through to the customer with no additional mark-up. These revenues are offset with purchases in Pennsylvania Gross Delivery Margins.
(b) There are no comparable amounts in the 2010 periods as LKE was acquired in November 2010 and WPD Midlands was acquired in April 2011.
(c) The six month period was higher due to a $12 million charge recorded in the first quarter of 2010 reflecting the impact on regulatory allowed revenues, primarily resulting from changes in the network electricity line loss assumptions. Such charges were insignificant in the first quarter of 2011.

Other Operation and Maintenance

Changes in other operation and maintenance expense for the periods ended June 30, 2011 compared with 2010 were due to:

	Three Months	Six Months
Domestic:		
LKE (a)	$ 198	$ 379
Montana hydroelectric litigation (b)		(47)
Susquehanna nuclear plant costs (c)	49	28
Outage and other costs at fossil/hydroelectric plants (d)	(16)	2
Impacts from emission allowances	(7)	(10)
Other	5	14
U.K.:		
PPL WW	3	5
WPD Midlands (a)	72	72
Total	$ 304	$ 443

(a) There are no comparable amounts in the 2010 periods as LKE was acquired in November 2010 and WPD Midlands was acquired in April 2011.
(b) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. As a result, in the first quarter of 2010, PPL Montana recorded a pre-tax charge of $56 million, representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. The portion of the total charge recorded to other operation and maintenance totaled $49 million. See Note 10 for additional information.
(c) Both periods were $9 million higher due to the 2011 dual-unit turbine blade replacement outage at the Susquehanna nuclear plant. The three-month period was $36 million higher due to the timing and increased costs of the Susquehanna nuclear plant refueling outage. The six-month period was $10 million higher due to an increase in costs related to the Susquehanna nuclear plant refueling outage.
(d) The decrease for the three-month period was primarily due to the timing of maintenance outages ($19 million).

Depreciation

Changes in depreciation expense for the periods ended June 30, 2011 compared with 2010 were due to:

	Three Months	Six Months
Additions to PP&E	$ 6	$ 9
LKE (a) (b)	84	165
WPD Midlands (b)	20	20
Foreign currency exchange rates	2	2
Total	$ 112	$ 196

(a) Includes $12 million and $22 million of depreciation expense for the three and six months ended June 30, 2011 for recently completed plant additions at TC2 and E.W. Brown.
(b) There are no comparable amounts in the 2010 periods as LKE was acquired in November 2010 and WPD Midlands was acquired in April 2011.

Taxes, Other Than Income

Changes in taxes, other than income for the periods ended June 30, 2011 compared with 2010 were due to:

	Three Months	Six Months
Pennsylvania gross receipts tax (a)	$ 2	$ (6)
Domestic property tax (b)	(5)	(5)
LKE (c)	9	18
U.K. property tax	1	1
WPD Midlands (c)	15	15
Total	$ 22	$ 23

(a) Decrease for the six month period primarily due to the decrease in retail electricity revenues as customers continue to select alternative suppliers in 2011. This tax is included in "Pennsylvania Gross Delivery Margins" and "Unregulated Gross Energy Margins".
(b) The decreases are primarily due to amortization of the PURTA refund. This is included in "Pennsylvania Gross Delivery Margins."
(c) There are no comparable amounts in the 2010 periods as LKE was acquired in November 2010 and WPD Midlands was acquired in April 2011.

Other Income (Expense) - net

The $34 million decrease in other income (expense) - net for the three months ended June 30, 2011 compared with the same period in 2010 was primarily attributable to:

- $47 million of other WPD Midlands acquisition-related costs, including U.K. stamp duty tax, partially offset by $7 million of other LKE acquisition-related costs recorded in 2010; and
- a $58 million foreign currency loss related to the repayment of the 2011 Bridge Facility borrowing offset by a $62 million gain on foreign currency forward contracts that hedged the repayment of such borrowings.

The $47 million decrease in other income (expense) - net for the six months ended June 30, 2011 compared with the same period in 2010 was primarily attributable to:

- $57 million of other WPD Midlands acquisition-related costs, including U.K. stamp duty tax, partially offset by an increase of $7 million of earnings on securities in the NDT funds and $7 million of other LKE acquisition-related costs recorded in 2010; and
- a $58 million foreign currency loss related to the repayment of the 2011 Bridge Facility borrowing offset by a $55 million gain on foreign currency forward contracts that hedged the repayment of such borrowings.

Interest Expense

Changes in interest expense for the periods ended June 30, 2011 compared with 2010 were due to:

	Three Months	Six Months
2011 Bridge Facility costs related to the acquisition of WPD Midlands (a)	$ 36	$ 43
2010 Bridge Facility costs related to the acquisition of LKE	(22)	(22)
2010 Equity Units (b)	15	30
2011 Equity Units (c)	10	10
Interest on the March 2010 WPD debt issuance	2	11
LKE (d)	36	72
WPD Midlands (d)	45	45
Montana hydroelectric litigation (e)		(6)
Other	11	13
Total	$ 133	$ 196

(a) In March 2011, PPL entered into a 364-day unsecured bridge financing to fund the acquisition of WPD Midlands.
(b) Interest related to the June 2010 issuance to support the November 2010 LKE acquisition.
(c) Interest related to the April 2011 issuance to support the April 2011 WPD Midlands acquisition.
(d) There are no comparable amounts in the 2010 periods as LKE was acquired in November 2010 and WPD Midlands was acquired in April 2011.
(e) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision. As a result, in the first quarter of 2010, PPL Montana recorded a pre-tax charge of $56 million, representing estimated rental compensation for the first quarter of 2010 and prior years, including interest.

Income Taxes

Changes in income taxes for the periods ended June 30, 2011 compared with 2010 were due to:

	Three Months	Six Months
Higher pre-tax book income	$ 49	$ 91
State valuation allowance adjustments (a)		19
Domestic manufacturing deduction (b)	8	12
Federal and state tax reserve adjustments	(3)	4
U.S. income tax on foreign earnings net of foreign tax credit	(1)	(9)
Foreign losses resulting from restructuring (c)	25	25
Foreign tax reserve adjustments (c)	(22)	(22)
Health Care Reform		(8)
LKE (d)	24	73
WPD Midlands (d)	10	10
Depreciation not normalized	(2)	(5)
Other	1	(4)
Total	$ 89	$ 186

(a) Primarily reflects the impact of Pennsylvania Department of Revenue interpretive guidance issued in February 2011 on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. Due to the reduction in projected Pennsylvania taxable income for tax years 2011 and 2012 related to the 100% bonus depreciation deduction, PPL adjusted its deferred tax valuation allowances for Pennsylvania net operating losses. As a result, during the six months ended June 30, 2011 PPL recorded $11 million of deferred income tax expense.
(b) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation eliminates the estimated income tax benefit related to the domestic manufacturing deduction in 2011.
(c) During the three and six months ended June 30, 2010, PPL recorded a $25 million foreign tax benefit and a related $22 million foreign tax reserve in conjunction with losses resulting from restructuring in the U.K. These losses offset tax on a deferred gain from a prior year sale of WPD's supply business. See Note 5 to the Financial Statements for additional information on income taxes.
(d) There are no comparable amounts in the 2010 periods as LKE was acquired in November 2010 and WPD Midlands was acquired in April 2011.

Discontinued Operations

Income (Loss) from Discontinued Operations (net of taxes) decreased by $8 million and $13 million for the three and six months ended June 30, 2011, compared with the same periods in 2010. The decreases are attributable to the presentation of certain non-core generation facilities sold in 2011 as Discontinued Operations. See "Discontinued Operations" in Note 8 to the Financial Statements for additional information.

Financial Condition

Liquidity and Capital Resources

PPL had the following at:

	June 30, 2011	December 31, 2010
Cash and cash equivalents	$ 1,269	$ 925
Short-term investments (a)		163
	$ 1,269	$ 1,088
Short-term debt	$ 431	$ 694

(a) Represents tax-exempt bonds issued by Louisville/Jefferson County, Kentucky on behalf of LG&E that were subsequently purchased by LG&E. Such bonds were remarketed to unaffiliated investors in January 2011. See Note 7 to the Financial Statements for further discussion.

The $344 million increase in PPL's cash and cash equivalents position was primarily the net result of:

- proceeds of $4.4 billion from the issuance of long-term debt;
- proceeds of $2.3 billion from the issuance of common stock;
- cash provided by operating activities of $814 million;
- proceeds from the sale of certain non-core generation facilities of $381 million;
- the payment of $5.8 billion for the acquisition of WPD Midlands;
- capital expenditures of $1.0 billion;
- a net decrease in short-term debt of $321 million;
- the payment of $340 million of common stock dividends; and
- the payment of $72 million of debt issuance and credit facility costs.

PPL's cash provided by operating activities increased $242 million for the six months ended June 30, 2011 compared with the same period in 2010. The increase reflects cash provided in 2011 by LKE, which was acquired in November 2010, totaling $401 million and the receipt in 2011 of a $170 million federal tax refund (excluding $50 million related to LKE) and a lower estimated annual gross receipts tax payment made in 2011 versus 2010 of $94 million. These increases were partially offset by changes in counterparty collateral requirements of $356 million and higher defined benefit plan contributions of $48 million (excluding $157 million related to LKE).

Credit Facilities

At June 30, 2011, PPL's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
PPL Energy Supply Credit Facilities (a)	$ 3,200	$ 250	$ 177	$ 2,773
PPL Electric Credit Facilities (b)	350		13	337
LG&E Credit Facility (c)	400			400
KU Credit Facilities (c)(d)	598		198	400
Total Domestic Credit Facilities (e)	$ 4,548	$ 250	$ 388	$ 3,910
PPL WW Credit Facility	£ 150	£ 113	n/a	£ 37
WPD (South West) Credit Facility	210		n/a	210
WPD (East Midlands) Credit Facility (f)	300		£ 70	230
WPD (West Midlands) Credit Facility (f)	300		71	229
Total WPD Credit Facilities (g)	£ 960	£ 113	£ 141	£ 706

(a) In March 2011, PPL Energy Supply's $300 million Structured Credit Facility expired. PPL Energy Supply's obligations under this facility were supported by a $300 million letter of credit issued on PPL Energy Supply's behalf under a separate, but related $300 million 5-year credit agreement, which also expired in March 2011.

(b) Committed capacity includes a $150 million credit facility related to an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary pledges these assets to secure loans of up to an aggregate of $150 million from a commercial paper conduit sponsored by a financial institution. At June 30, 2011, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under the facility was limited to $107 million.

In July 2011, PPL Electric and a subsidiary extended the expiration date of the credit agreement related to the asset-backed commercial paper program to July 2012.

(c) In June 2011, LG&E and KU each amended its respective Syndicated Credit Facility such that the fees and the spread to benchmark interest rates for borrowings depend upon the respective company's senior secured long-term debt rating rather than the senior unsecured debt rating.

(d) In April 2011, KU entered into a new $198 million letter of credit facility that has been used to issue letters of credit to support outstanding tax exempt bonds. The facility matures in April 2014.

(e) Total borrowings outstanding under PPL's domestic credit facilities decreased on a net basis by $263 million since December 31, 2010.

The commitments under PPL's domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 9% of the total committed capacity.

(f) In April 2011, following the completion of the acquisition of WPD Midlands, WPD (East Midlands) and WPD (West Midlands) each entered into a £300 million 5-year syndicated credit facility. Under the facilities, WPD (East Midlands) and WPD (West Midlands) each have the ability to make cash borrowings and to request the lenders to issue up to £80 million of letters of credit in lieu of borrowing.

(g) In June 2011, WPD repaid £84 million of short-term debt (which equated to $138 million at the time of repayment) with proceeds received from the issuance of long-term debt. Although financial information of foreign subsidiaries is recorded on a one-month lag, the repayment of short-term debt is reflected in the financial statements for the quarter ended June 30, 2011. See "Long-term Debt and Equity Securities" below for further discussion.

At June 30, 2011, the unused capacity of WPD's credit facilities was approximately $1.3 billion.

The commitments under WPD's credit facilities are provided by a diverse bank group, with no one bank providing more than 17% of the total committed capacity.

See Note 7 to the Financial Statements for further discussion of PPL's credit facilities.

2011 Bridge Facility

In March 2011, concurrently, and in connection with entering into the agreement to acquire WPD Midlands, PPL entered into a commitment letter with certain lenders pursuant to which the lenders committed to provide PPL with 364-day unsecured bridge financing of up to £3.6 billion solely to (i) fund the acquisition and (ii) pay certain fees and expenses in connection with the acquisition. The bridge financing commitment was subsequently syndicated to a group of banks, including the initial commitment lenders. Upon the syndication of the commitment, in March 2011, PPL Capital Funding and PPL WEM, as borrowers, and PPL, as guarantor, entered into the 2011 Bridge Facility.

On April 1, 2011, concurrent with the closing of the WPD Midlands acquisition, PPL Capital Funding borrowed an aggregate of £1.75 billion and PPL WEM borrowed £1.85 billion under the 2011 Bridge Facility. The borrowings bore interest at approximately 2.62%. See Note 8 to the Financial Statements for additional information on the acquisition.

In accordance with the terms of the 2011 Bridge Facility, PPL Capital Funding's borrowings of £1.75 billion were repaid with approximately $2.8 billion of proceeds received from PPL's issuance of common stock and 2011 Equity Units in April 2011, as discussed in "Long-term Debt and Equity Securities" below. Also in April 2011, PPL WEM repaid £650 million of its 2011 Bridge Facility borrowing. Such repayment was funded primarily with proceeds received from PPL WEM's issuance of senior notes, which is also discussed below. In May 2011, PPL WEM repaid the remaining £1.2 billion of borrowings outstanding under the 2011 Bridge Facility, primarily with the proceeds from senior notes issued by WPD (East Midlands) and WPD (West Midlands), also discussed below.

In anticipation of the repayment of a portion of the GBP-denominated borrowings under the 2011 Bridge Facility with U.S. dollar-denominated proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of U.S. dollar-denominated senior notes, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. See Note 14 to the Financial Statements for further discussion.

Long-term Debt and Equity Securities

PPL's long-term debt and equity securities activity through June 30, 2011 was:

	Debt Issuances (a)	Debt Retirements	Equity Issuances
PPL Common Stock			$ 2,328
PPL Capital Funding Junior Subordinated Notes	$ 978		
PPL WEM Senior Unsecured Notes	959		
WPD (West Midlands) Senior Unsecured Notes	1,282		
WPD (East Midlands) Senior Unsecured Notes	967		
WPD (East Midlands) Index-linked Notes (b)	164		
Total Cash Flow Impact	$ 4,350		$ 2,328
Assumed through consolidation - WPD Midlands acquisition:			
WPD (East Midlands) Senior Unsecured Notes (c)	$ 418		
WPD (West Midlands) Senior Unsecured Notes (c)	412		
Total Assumed	$ 830		
Net Increase	$ 5,180		

PPL's long-term debt and equity securities activity since June 30, 2011 was:

	Debt Issuances	Debt Retirements	Equity Issuances
PPL Energy Supply Senior Unsecured Notes (d)		$ (250)	
PPL Electric First Mortgage Bonds (e)	$ 249	(458)	
Total Cash Flow Impact	$ 249	$ (708)	
Non-cash Exchanges (f):			
LKE Senior Unsecured Notes	$ 875	$ (875)	
LG&E First Mortgage Bonds	535	(535)	
KU First Mortgage Bonds	1,500	(1,500)	
Total Exchanged	$ 2,910	$ (2,910)	
Net Decrease	$ (459)		

(a) Issuances are net of pricing discounts, where applicable and exclude the impact of debt issuance costs.
(b) Although financial information of foreign subsidiaries is recorded on a one-month lag, the June 2011 issuance of the Index-linked Notes, and the related repayment of £84 million of short-term debt (which equated to $138 million at the time of repayment), are reflected in the financial statements for the quarter ended June 30, 2011 due to the materiality of the issuance of the Index-linked Notes.
(c) Reflects fair value adjustments resulting from the preliminary purchase price allocation. The principal amount of each issuance is £250 million, which equated to approximately $400 million at the time of closing.
(d) Senior unsecured notes were redeemed at par prior to their 2046 maturity date.
(e) Retirement reflects amount paid to redeem $400 million aggregate principal amount of first mortgage bonds prior to their 2013 maturity date.
(f) In April 2011, LKE, LG&E and KU each filed a 2011 Registration Statement with the SEC related to offers to exchange securities issued in November 2010 in transactions not registered under the Securities Act of 1933 with similar but registered securities. The 2011 Registration Statements became effective in June 2011 and the exchanges were completed in July 2011, with substantially all securities being exchanged.

At June 30, 2011, LKE's tax-exempt revenue bonds that are in the form of auction rate securities and total $231 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the six months ended June 30, 2011, the weighted-average rate on LG&E's and KU's auction rate bonds in total was 0.31%.

In July 2011, PPL Electric entered into a supplemental indenture that contains prospective amendments to its 2001 Mortgage Indenture, including amendments to reduce the amount of first mortgage bonds issuable on the basis of property additions from 100% of the cost or fair value (whichever is less, as determined in accordance with the terms of the indenture) of such property additions to 66-2/3% of such cost or fair value. PPL Electric expects the amendments to become effective in the third quarter of 2011.

See Note 7 to the Financial Statements for additional information about long-term debt and equity securities.

Common Stock Dividends

In May 2011, PPL declared its quarterly common stock dividend, payable July 1, 2011, at 35.0 cents per share (equivalent to $1.40 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt and preferred securities of PPL and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL and its subsidiaries are based on information provided by PPL and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in PPL's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets.

In prior periodic reports, PPL described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, PPL is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to PPL's ratings, but without stating what ratings have been assigned to PPL or its subsidiaries, or their securities. The ratings assigned by the rating agencies to PPL and its subsidiaries and their respective securities may be found, without charge, on each of the respective rating agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of the then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

Moody's affirmed all of the ratings for PPL and all of its rated subsidiaries.

S&P revised the outlook for PPL, PPL Capital Funding, PPL Energy Supply, PPL Electric, LKE, LG&E, KU, PPL WW, WPD (South West) and WPD (South Wales), affirmed the issuer and senior unsecured ratings of PPL WW, and lowered the following ratings:

- the issuer rating of PPL;
- the senior unsecured and junior subordinated ratings of PPL Capital Funding;
- the issuer and senior unsecured ratings of PPL Energy Supply;
- the issuer, senior secured, preference stock, and commercial paper ratings of PPL Electric;
- the issuer and senior unsecured ratings of LKE;
- the issuer, senior secured ratings, and short-term ratings of LG&E;
- the issuer, senior secured ratings, and short-term ratings of KU;
- the issuer and senior unsecured ratings of WPD (South West); and
- the issuer and senior unsecured ratings of WPD (South Wales).

Fitch affirmed all of the ratings for PPL, PPL Capital Funding, PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

In April 2011, Moody's and S&P took the following actions following the completion of the acquisition of WPD Midlands.

Moody's:
- lowered the issuer and senior unsecured debt ratings of WPD (East Midlands) and WPD (West Midlands);
- affirmed the short-term issuer rating of WPD (East Midlands); and
- assigned a senior unsecured rating and an outlook to PPL WEM.

S&P:
- lowered the issuer and senior unsecured debt ratings of WPD (East Midlands) and WPD (West Midlands);
- assigned issuer ratings to PPL WEM;
- raised the issuer rating of PPL WW;
- revised the outlook for PPL and all of its rated subsidiaries;
- raised the short-term ratings of LG&E, KU, WPD (East Midlands), WPD (West Midlands), PPL WEM, PPL WW, WPD (South West), WPD (South Wales) and PPL Electric; and

- affirmed all of the long-term ratings for PPL and its rated subsidiaries.

In May 2011, S&P downgraded the long-term rating of four series of pollution control bonds issued on behalf of KU by one notch in connection with the substitution of the letters of credit enhancing these four bonds.

Also in May 2011, Fitch affirmed its rating and maintained its outlook for PPL Montana's Pass Through Certificates due 2020.

In July 2011, S&P upgraded the senior secured rating for PPL Electric's first mortgage bonds following the execution of a supplemental indenture that provides for prospective amendments to PPL Electric's 2001 Mortgage Indenture, as discussed in "Long-term Debt and Equity Securities" above.

The Economic Stimulus Package

In April 2010, PPL Electric entered into an agreement with the DOE, in which the agency is to provide a grant for one-half of a $38 million smart grid project. The project involves installing and using smart grid technology to strengthen reliability, save energy and improve electric service for approximately 60,000 Harrisburg, Pennsylvania-area customers. It is expected to provide benefits beyond the Harrisburg region, helping to speed power restoration across PPL Electric's 29-county service territory. Work on the project is progressing on schedule, and PPL Electric is receiving reimbursements under the grant for costs incurred. The project is scheduled to be completed by the end of September 2012.

Ratings Triggers

PPL and its subsidiaries have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements and interest rate and foreign currency instruments, which contain provisions requiring PPL and its subsidiaries to post additional collateral, or permitting the counterparty to terminate the contract, if PPL's or the subsidiaries' credit ratings were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at June 30, 2011. At June 30, 2011, if PPL's or its subsidiaries' credit ratings had been below investment grade, the maximum amount that PPL would have been required to post as additional collateral to counterparties was $490 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations and interest rate and foreign currency contracts.

Capital Expenditures

The table below shows PPL's capital expenditure projections at June 30, 2011.

	Projected				
	2011	2012	2013	2014	2015
Construction expenditures (a) (b)					
Generating facilities	$ 778	$ 640	$ 553	$ 360	$ 492
Transmission and distribution facilities	1,490	1,925	2,248	2,215	2,071
Environmental (c)	230	764	1,239	1,212	888
Other	157	173	133	122	138
Total Construction Expenditures	2,655	3,502	4,173	3,909	3,589
Nuclear fuel	152	159	161	158	160
Total Capital Expenditures	$ 2,807	$ 3,661	$ 4,334	$ 4,067	$ 3,749

(a) Construction expenditures include capitalized interest and AFUDC, which are expected to be approximately $320 million for the years 2011 through 2015.
(b) Includes expenditures for certain intangible assets.
(c) Includes $709 million of LKE's currently estimable costs related to replacement generation units due to EPA regulations not recoverable through the ECR mechanism. LKE expects to recover these costs over a period equivalent to the related depreciable lives of the assets through base rates established by future rate cases.

PPL's capital expenditure projections for the years 2011 through 2015 total approximately $18.6 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table has been revised from that which was presented in PPL's 2010 Form 10-K for changes in estimates for LKE's environmental projects related to new and anticipated EPA compliance standards (actual costs may be significantly lower or higher depending on the final requirements; certain environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism) and expenditures to be made by the newly acquired WPD Midlands. See Note 8 to the Financial Statements for information on PPL's April 2011 acquisition of WPD Midlands.

For additional information on PPL's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL's 2010 Form 10-K.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about PPL's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

PPL segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL's generation assets, full-requirement sales contracts and retail activities. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. The net fair value of economic positions at June 30, 2011 and December 31, 2010 was a net liability of $237 million and $391 million. See Note 14 to the Financial Statements for additional information on economic activity.

To hedge the impact of market price volatility on PPL's energy-related assets, liabilities and other contractual arrangements, PPL both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL's non-trading commodity derivative contracts mature at various times through 2017.

The following table sets forth the change in net fair value of PPL's non-trading commodity derivative contracts for the periods ended June 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months Ended		Six Months Ended	
	2011	2010	2011	2010
Fair value of contracts outstanding at the beginning of the period	$ 997	$ 1,726	$ 947	$ 1,280
Contracts realized or otherwise settled during the period	(85)	(108)	(128)	(234)
Fair value of new contracts entered into during the period	31	(11)	15	7
Changes in fair value attributable to changes in valuation techniques (a)		(23)		(23)
Other changes in fair value	(49)	(281)	60	273
Fair value of contracts outstanding at the end of the period	$ 894	$ 1,303	$ 894	$ 1,303

(a) In June 2010, PPL received market bids for certain full-requirement sales contracts that were monetized in early July. See Note 14 to the Financial Statements for additional information. At June 30, 2010, these contracts were valued based on the bids received (the market approach). In prior periods, the fair value of these contracts was measured using the income approach.

The following table segregates the net fair value of PPL's non-trading commodity derivative contracts at June 30, 2011, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

Source of Fair Value	Net Asset (Liability) Maturity Less Than 1 Year		Maturity 1-3 Years		Maturity 4-5 Years		Maturity in Excess of 5 Years		Total Fair Value	
Prices based on significant other observable inputs	$	442	$	415	$	11			$	868
Prices based on significant unobservable inputs		5		(23)		13	$	31		26
Fair value of contracts outstanding at the end of the period	$	447	$	392	$	24	$	31	$	894

PPL sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties with which it has energy contracts and other factors could affect PPL's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future.

Commodity Price Risk (Trading)

PPL's trading contracts mature at various times through 2015. The following table sets forth changes in the net fair value of PPL's trading commodity derivative contracts for the periods ended June 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses) Three Months 2011		Three Months 2010		Six Months 2011		Six Months 2010	
Fair value of contracts outstanding at the beginning of the period	$	7	$	2	$	4	$	(6)
Contracts realized or otherwise settled during the period		1		4		3		
Fair value of new contracts entered into during the period		5		2		8		2
Other changes in fair value		2		(4)				8
Fair value of contracts outstanding at the end of the period	$	15	$	4	$	15	$	4

Unrealized gains of approximately $6 million will be reversed over the next three months as the transactions are realized.

The following table segregates the net fair value of trading commodity derivative contracts at June 30, 2011, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

Source of Fair Value	Net Asset (Liability) Maturity Less Than 1 Year		Maturity 1-3 Years		Maturity 4-5 Years		Maturity in Excess of 5 Years		Total Fair Value	
Prices based on significant other observable inputs	$	6	$	7	$	2			$	15
Fair value of contracts outstanding at the end of the period	$	6	$	7	$	2			$	15

VaR Models

A VaR model is utilized to measure commodity price risk in domestic gross energy margins for the non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's conservative hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the period was as follows.

	Trading VaR		Non-Trading VaR	
	Six Months Ended June 30, 2011	Twelve Months Ended December 31, 2010	Six Months Ended June 30, 2011	Twelve Months Ended December 31, 2010
95% Confidence Level, Five-Day Holding Period				
Period End	$ 2	$ 1	$ 7	$ 5
Average for the Period	2	4	5	7
High	4	9	7	12
Low	1	1	5	4

The trading portfolio includes all speculative positions, regardless of the delivery period. All positions not considered speculative are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at June 30, 2011.

Interest Rate Risk

PPL and its subsidiaries have issued debt to finance their operations, which exposes them to interest rate risk. PPL utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio, adjust the duration of its debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of PPL's debt portfolio due to changes in the absolute level of interest rates.

At June 30, 2011, PPL's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL is also exposed to changes in the fair value of its domestic and international debt portfolios. PPL estimated that a 10% decrease in interest rates at June 30, 2011 would increase the fair value of its debt portfolio by $629 million.

At June 30, 2011, PPL had the following interest rate hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)
Cash flow hedges			
Interest rate swaps (c)	$ 350	$ (16)	$ (15)
Cross-currency swaps (d)	1,262	4	(193)
Fair value hedges			
Interest rate swaps (e)	349	11	(1)
Economic hedges			
Interest rate swaps (f)	179	(36)	(5)

(a) Includes accrued interest, if applicable.
(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
(c) PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any changes in the fair value of such cash flow hedges are recorded in equity. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in interest rates.
(d) PPL WEM, through PPL, and PPL WW use cross-currency swaps to hedge the interest payments and principal of their U.S. dollar-denominated senior notes with maturity dates ranging from May 2016 to December 2028. While PPL is exposed to changes in the fair value of these instruments, any change in the fair value of these instruments is recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in both interest rates and foreign currency exchange rates.
(e) PPL utilizes various risk management instruments to adjust the mix of fixed and floating interest rates in its debt portfolio. The change in fair value of these instruments, as well as the offsetting change in the value of the hedged exposure of the debt, is reflected in earnings. Sensitivities represent a 10% adverse movement in interest rates.
(f) PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any changes in the fair value of such economic hedges are recorded in regulatory assets and liabilities. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in interest rates.

Foreign Currency Risk

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. In addition, PPL's domestic operations may make purchases of equipment in currencies other than U.S. dollars.

PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including the risk associated with translating earnings and dividends for the U.K. affiliates, firm commitments, recognized assets or liabilities, other anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

At June 30, 2011, PPL had the following foreign currency hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)
Net investment hedges (b)	£ 10		$ (2)
Economic hedges			
Earnings translation (c)	188	$ 4	(22)

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
(b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP.
(c) To economically hedge the translation of expected income denominated in GBP to U.S. dollars, PPL enters into a combination of average rate forwards and average rate options to sell GBP. The forwards and options outstanding at June 30, 2011, have termination dates ranging from July 2011 through December 2011.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the Susquehanna nuclear plant. At June 30, 2011, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on PPL's Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its NDT policy statement. At June 30, 2011, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated $46 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL's 2010 Form 10-K for additional information.

Foreign Currency Translation

During 2011 and 2010, the GBP fluctuated in relation to the U.S. dollar. Changes in these exchange rates resulted in a foreign currency translation gain of $162 million for the six months ended June 30, 2011, which primarily reflected a $336 million increase to PP&E offset by an increase of $174 million to net liabilities. Changes in these exchange rates resulted in a foreign currency translation loss of $164 million for the six months ended June 30, 2010, which primarily reflected a $422 million reduction to PP&E offset by a reduction of $258 million to net liabilities. These adjustments, net of tax, resulting from translation are recorded in AOCI.

Related Party Transactions

PPL is not aware of any material ownership interests or operating responsibility by senior management of PPL, PPL Energy Supply, PPL Electric, LKE, LG&E or KU in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with PPL. See Note 11 to the Financial Statements for additional information on related party transactions between PPL affiliates.

Acquisitions, Development and Divestitures

PPL continuously evaluates potential acquisitions, divestitures and development projects as opportunities arise or are identified. Development projects are continuously reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options.

In April 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of WPD Midlands. See Note 8 to the Financial Statements for additional information.

See Notes 1 and 10 to the Financial Statements in PPL's 2010 Form 10-K for information on PPL's November 2010 acquisition of LKE.

With limited exceptions LKE took care, custody and control of TC2 in January 2011, and has dispatched the unit to meet customer demand since that date. TC2 is a new 760 MW capacity base-load, coal-fired unit that is jointly owned by LG&E and KU (combined 75% interest), and the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency (combined 25% interest). See Note 10 to the Financial Statements for additional information.

Environmental Matters

Protection of the environment is a priority for PPL and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to PPL's air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc., and may impact the costs for their products or their demand for PPL's services. See "Overview" and Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in PPL's 2010 Form 10-K for additional information on environmental matters.

New Accounting Guidance

See Note 18 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: price risk management, defined benefits, asset impairment, loss accruals, AROs, income taxes, regulatory assets and liabilities and business combinations - purchase price allocation. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL's 2010 Form 10-K for a discussion of each critical accounting policy.

Following is an update to the critical accounting policies disclosed in PPL's 2010 Form 10-K.

Business Combinations - Purchase Price Allocation

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands). In accordance with accounting guidance on business combinations, the identifiable assets acquired and the liabilities assumed must be measured at fair value at the acquisition date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The excess of the purchase price over the estimated fair value of the identifiable net assets is recorded as goodwill.

The determination and allocation of fair value to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment, including estimates based on key assumptions of the acquisition, and historical and current market data. The most significant variables in these valuations are the discount rates, the number of years on which to base cash flow projections, as well as the assumptions and estimates used to determine cash inflows and outflows.

As noted in Note 8 to the Financial Statements, the purchase price allocation is preliminary and could change materially in subsequent periods. The preliminary purchase price allocation was based on PPL's best estimates using information obtained as of the reporting date. Any changes to the purchase price allocation during the measurement period, which can extend up to one year from the date of acquisition, that result in material changes to the consolidated financial results will be adjusted retrospectively. The final purchase price allocation is expected to be completed before the end of 2011. The items pending finalization include, but are not limited to, the valuation of PP&E, intangible assets including goodwill, defined benefit plans, certain liabilities and income tax related matters.

The fair value of the majority of PP&E and easements (classified within "Other intangibles" on the Balance Sheet) was determined utilizing a discounted cash flow approach and corroborated by the RAV, which is a measure of the unrecovered value of the regulated network business in the U.K. For purposes of measuring the fair value of the majority of PP&E and easements, PPL determined that fair value should approximate the RAV at the acquisition date because WPD Midlands' operations are conducted in a regulated environment and the regulator allows for earning a rate of return on and recovery of RAV at rates determined to be fair and reasonable. As there is no current prospect for deregulation in WPD Midlands' operating territory, it is expected that these operations will remain in a regulated environment for the foreseeable future; therefore, management has concluded that the use of these assets in the regulatory environment represents their highest and best use and a market participant would measure the fair value of these assets using the regulatory rate of return as the discount rate, thus resulting in fair value approximately equal to the RAV. The amounts recorded for PP&E and easements are based on estimates and will be updated upon the finalization of the valuation work.

Preliminary goodwill related to the acquisition of $2.3 billion was assigned to the International Regulated segment. The goodwill reflects the expected continued growth of a rate-regulated business with a defined service territory operating under a regulatory framework, expected cost savings, efficiencies and other benefits resulting from contiguous service territories with WPD (South West) and WPD (South Wales) and the ability to leverage WPD (South West) and (South Wales)'s existing management team's high level of performance both in capital cost efficiency and customer service.

See Note 8 to the Financial Statements for additional information regarding the acquisition.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with PPL Energy Supply's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL Energy Supply's Form 8-K dated June 24, 2011 and 2010 Form 10-K. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides an overview of PPL Energy Supply's business strategy, financial and operational highlights and key legal and regulatory matters.

- "Results of Operations" provides a summary of PPL Energy Supply's earnings and a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on PPL Energy Supply's Statements of Income, comparing the three and six months ended June 30, 2011 with the same periods in 2010.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL Energy Supply's liquidity position and credit profile. This section also includes a discussion of rating agency decisions.

- "Financial Condition - Risk Management" provides an explanation of PPL Energy Supply's risk management programs relating to market and credit risk.

Overview

Introduction

PPL Energy Supply is an energy company with headquarters in Allentown, Pennsylvania. Through its subsidiaries, PPL Energy Supply is primarily engaged in the generation and marketing of electricity in two key markets - the northeastern and northwestern U.S.

Through December 31, 2010, PPL Energy Supply had two reportable segments - International Regulated and Supply. However, in January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to its direct parent, PPL Energy Funding, to better align PPL's organizational structure with the manner in which it manages its businesses and reports segment information in its consolidated financial statements. The distribution separated the U.S. based competitive energy marketing and supply business from the U.K. based regulated electricity distribution business. As a result, effective January 1, 2011, PPL Energy Supply operates in a single business segment. The 2010 operating results of the International Regulated segment have been reclassified to "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income. See Note 8 to the Financial Statements for additional information on the January 2011 distribution.

Business Strategy

PPL Energy Supply's overall strategy is to achieve disciplined growth in energy supply margins while mitigating volatility in both cash flows and earnings. More specifically, PPL Energy Supply's strategy is to optimize the value from its unregulated generation and marketing portfolio by matching energy supply with load, or customer demand, under contracts of varying lengths with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk.

To manage financing costs and access to credit markets, a key objective of PPL Energy Supply's business is to maintain a strong credit profile. PPL Energy Supply continually focuses on maintaining an appropriate capital structure and liquidity position. In addition, PPL Energy Supply has adopted financial and operational risk management programs that, among other things, are designed to monitor and manage its exposure to earnings and cash flow volatility related to changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of its generating units.

Financial and Operational Highlights

Net Income

Net income for the three and six months ended June 30, 2011 was $89 million and $303 million compared to $86 million and $286 million for the same periods in 2010. This represents a 3% and 6% increase over 2010. These increases reflect the following after-tax impacts:

	Three Months	Six Months
Net unrealized gains on energy-related economic activity	$ 51	$ 133
2010 net losses related to the monetization of certain full-requirement sales contracts	36	36
Recovery from the litigation settlement recorded in 2011 related to spent nuclear fuel storage	29	29
Impact of Susquehanna station turbine blade replacement outages	(60)	(60)
Results of PPL Global no longer being consolidated within PPL Energy Supply	(53)	(121)
	$ 3	$ 17

See "Results of Operations" below for further discussion and analysis of the consolidated results of operations.

Susquehanna Turbine Blade Replacement

In April 2011, during the PPL Susquehanna Unit 2 scheduled refueling and generation uprate outage, a planned inspection of the Unit 2 turbine revealed cracks in certain of its low pressure turbine blades. Replacement of these blades was required, but was not anticipated as part of the original scope of this outage. The necessary replacement work extended the Unit 2 outage by six weeks. As a precaution, PPL Susquehanna also took Unit 1 out of service in mid-May to inspect the turbine blades in that unit. This inspection revealed cracks in blades similar to those found in Unit 2. The duration of the Unit 1 outage, in which turbine blades were replaced, was also about six weeks. PPL Susquehanna currently estimates the after-tax earnings impact, including reduced energy-sales margins and repair expense for both units to be between $60 million and $65 million. The majority of these costs were incurred during the second quarter of 2011.

Legal and Regulatory Matters

Federal

Cross State Air Pollution Rule

In July 2011, the EPA signed the CSAPR which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. This rule applies to PPL Energy Supply's plants in Pennsylvania. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions. PPL Energy Supply's initial review of the allocations under the CSAPR indicates that greater reductions in sulfur dioxide emissions will be required beginning in 2012 under the CSAPR than were required under the CAIR starting in 2015. For the initial phase of the rule beginning in 2012, PPL Energy Supply's sulfur dioxide allowance allocations are expected to meet the forecasted emissions based on present operations of existing scrubbers and coal supply. However, for the second phase beginning in 2014, PPL Energy Supply will likely have to modify operations of its generation fleet. With respect to nitrogen oxide emissions, the CSAPR provides a slightly higher amount of allowances for PPL Energy Supply's Pennsylvania plants, but still less than their current forecasted emissions. With uncertainty surrounding the trading program other compliance options are being analyzed for the Pennsylvania fleet, such as the installation of new technology or modifications of plant operations. Additionally, PPL Energy Supply's plants, including those in Montana, may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. PPL Energy Supply anticipates that upgraded or new scrubbers, may be required at one or more of its plants or retirements of certain units may be undertaken to achieve compliance with new sulfur dioxide standards. If additional reductions were to be required, the economic impact to PPL Energy Supply could be significant. See Note 10 to the Financial Statements for additional information on the CSAPR.

Spent Nuclear Fuel Litigation

In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna station. Under the settlement agreement, PPL Susquehanna received approximately $50 million for its share of claims to recover its costs to store spent nuclear fuel at the Susquehanna station through September 2009 and will be eligible to receive payment of annual claims for allowed costs that are incurred thereafter through the December 2013 termination of the settlement agreement. See Note 10 to the Financial Statements for additional information.

Montana Hydroelectric Litigation

In June 2011, the U.S. Supreme Court granted PPL Montana's petition to review the March 2010 Montana Supreme Court decision substantially affirming the June 2008 Montana District Court decision to award the State of Montana retroactive compensation for PPL Montana's hydroelectric facilities' use and occupancy of certain riverbeds in Montana. The matter will be briefed on its merits, with oral argument likely to occur in late November or early December 2011 and a decision is likely to be rendered by the Court by June 30, 2012. The stay of judgment granted during the proceedings before the Montana Supreme Court has been extended by agreement with the State of Montana to cover the anticipated period of the proceeding before the U.S. Supreme Court. See Note 10 to the Financial Statements for additional information.

Results of Operations

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods.

Earnings

Net Income for the periods ended June 30 was:

	Three Months			Six Months		
	2011	2010	% Change	2011	2010	% Change
Operating revenues	$ 997	$ 835	19	$ 2,366	$ 2,929	(19)
Fuel	208	258	(19)	468	488	(4)
Energy Purchases	118	85	39	415	1,249	(67)
Other Operation and maintenance	288	254	13	533	552	(3)
Depreciation	60	60		119	117	2
Taxes, other than income	16	11	45	32	22	45
Energy-related business	112	93	20	220	174	26
Total operating expenses	802	761	5	1,787	2,602	(31)
Other Income (Expense) - net	4	5	(20)	18	11	64
Other-Than-Temporary Impairments		3	(100)	1	3	(67)
Interest Income from Affiliates	1	2	(50)	4	2	100
Interest Expense	51	49	4	98	102	(4)
Income Taxes	59	3	1,867	201	85	136
Income (Loss) from Discontinued Operations	(1)	60	(102)	2	136	(99)
Net Income	$ 89	$ 86	3	$ 303	$ 286	6

The changes in the components of Net Income between the periods ended June 30, 2011 and 2010 were primarily due to the following factors. PPL Energy Supply's results are adjusted for several items that management considers special. See additional detail of these items in the table below.

	Three Months	Six Months
U.S. non-trading margins	$ (128)	$ (200)
Other operation and maintenance	(38)	(35)
Other Income (Expense) - net	(2)	5
Income taxes	66	86
Other	(4)	(2)
Income (loss) from discontinued operations - Domestic (a)	5	9
Income (loss) from discontinued operations - International	(53)	(121)
Special items, after-tax	157	275
Total	$ 3	$ 17

(a) Excludes special items and certain revenues and expenses included in margins.

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.

- Higher other operation and maintenance expense for the three-month period was primarily due to the timing and increased costs of the PPL Susquehanna refueling outage of $36 million, $9 million from the dual-unit turbine blade replacement outages and $5 million from higher payroll costs at PPL Susquehanna, partially offset by $19 million in lower other operation and maintenance expense at eastern fossil/hydro facilities mainly due to the timing of the Montour planned maintenance outage.

  Higher other operation and maintenance expense for the six-month period was primarily due to increased costs of the PPL Susquehanna refueling outage of $10 million, $9 million from the dual-unit turbine blade replacement outages and $8 million from higher payroll costs at PPL Susquehanna.

- Higher other income (expense) - net for the six-month period was primarily due to $5 million of higher realized earnings on the NDT funds in 2011.

- Lower income taxes for both periods due to the impact of lower pre-tax book income of $74 million and $94 million for the three and six-month periods, partially offset by an $8 million and $12 million decrease in the domestic manufacturing deduction tax benefit for the three and six month periods resulting from the impact of bonus tax depreciation. The six-month period was also offset by $6 million in state NOL valuation allowance adjustments related to the impact of 100% bonus depreciation on future projected PA taxable income.

- Income (loss) from discontinued operations - International, represents the results of PPL Global which was distributed to PPL Energy Supply's parent, PPL Energy Funding in January 2011.

The following after-tax amounts, which management considers special items, also impacted PPL Energy Supply's earnings for the periods ended June 30.

	Income Statement Line Item	Three Months 2011	Three Months 2010	Six Months 2011	Six Months 2010
Special Items, net of tax benefit (expense):					
Adjusted energy-related economic activity, net, net of tax of $2, $39, ($10), $84	(a)	$ (3)	$ (54)	$ 14	$ (119)
Sales of assets:					
Sundance indemnification, net of tax of $0, $0, $0, $0	Other Income (Expense)		1		1
Non-core generation facilities, net of tax of $1, $0, $0, $0 (Note 8)	Discontinued Operations	(2)		(3)	
Impairments:					
Emission allowances, net of tax of $0, $3, $1, $5 (Note 13)	Other O&M		(5)	(1)	(7)
Renewable energy credits, net of tax of $0, $0, $2, $0 (Note 13)	Other O&M			(2)	
Adjustments - NDT investments, net of tax of $0, $0, ($1), $0 (b)	Other Income (Expense)			1	
LKE acquisition-related costs:					
Monetization of certain full-requirement sales contracts, net of tax of $0, $52, $0, $52	(c)		(75)		(75)
Other:					
Montana hydroelectric litigation, net of tax of $0, $0, $1, $21	(d)	(1)	(1)	(1)	(33)
Health care reform - tax impact (e)	Income Taxes				(5)
Litigation settlement - spent nuclear fuel storage, net of tax of ($21), $0 ($21), $0 (f)	Fuel	29		29	
Total		$ 23	$ (134)	$ 37	$ (238)

(a) See "Reconciliation of Economic Activity" below.
(b) Represents the reversal of previous other-than-temporary impairment charges when securities previously impaired were sold.
(c) See "Monetization of Certain Full-Requirement Sale Contracts" in Note 14 to the Financial Statements. For the three and six months ended June 30, 2010, $193 million, pre-tax was recorded to "Wholesale energy marketing" and $320 million, pre-tax was recorded to "Energy purchases" on the Statements of Income.
(d) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. As a result, in the first quarter of 2010, PPL Montana recorded a pre-tax charge of $56 million, representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. The portion of the total related to years prior to 2010 was $54 million. Of this total charge $49 million, pre-tax, was recorded to "Other operation and maintenance" and $7 million, pre-tax, was recorded to "Interest Expense" on the Statements of Income. The charges recorded for the three and six months ended June 30, 2011 and the three months ended June 30, 2010 were recorded to "Interest Expense" on the Statements of Income.

(e) Represents income tax expense recorded as a result of the provisions within Health Care Reform which eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage.
(f) In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna station. Under the settlement agreement, PPL Susquehanna received $50 million, pre-tax, for claims to recover its costs to store spent nuclear fuel at the Susquehanna station through September 2009.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) from the table within "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements to the special item identified as "Adjusted energy-related economic activity, net" for the periods ended June 30.

	Three Months		Six Months	
	2011	**2010**	**2011**	**2010**
Operating Revenues				
Unregulated retail electric and gas	$ 1	$ (2)	$ 5	$ 8
Wholesale energy marketing	(44)	(666)	13	(242)
Operating Expenses				
Fuel	(11)	(8)	12	(3)
Energy Purchases	109	445	127	(118)
Energy-related economic activity (a)	55	(231)	157	(355)
Option premiums (b)	6	11	11	25
Adjusted energy-related economic activity	61	(220)	168	(330)
Less: Unrealized economic activity associated with the monetization of certain full-requirement sales contracts (c)		(127)		(127)
Less: Economic activity now realized, associated with the monetization of certain full-requirement sales contracts in 2010	66		144	
Adjusted energy-related economic activity, net, pre-tax	$ (5)	$ (93)	$ 24	$ (203)
Adjusted energy-related economic activity, net, after-tax	$ (3)	$ (54)	$ 14	$ (119)

(a) See Note 14 to the Financial Statements for additional information.
(b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. After-tax gains for the three months ended June 30, 2011 and 2010 were $3 million and $6 million, and $6 million and $14 million for the six months ended June 30, 2011 and 2010. Option premiums are recorded in Wholesale energy marketing - realized and Energy purchases - realized on the Statements of Income.
(c) See "Commodity Price Risk – (Non-trading) - Monetization of Certain Full-Requirement Sales Contracts" in Note 14 to the Financial Statements for additional information. This item includes the $60 million loss ($36 million after tax) referenced in Note 14 to the Financial Statements associated with full-requirement sales contracts that have been monetized. Also included in this item is a net loss of $67 million ($39 million after tax) on economic activity related to these full-requirement sales contracts. Such amount was previously reflected in "Adjusted energy-related economic activity, net."

Outlook

Excluding special items, earnings are expected to be lower in 2011, compared with 2010, driven by lower energy margins resulting from lower Eastern energy and capacity prices, higher average fuels costs and the turbine blade replacement outages at PPL Susquehanna's nuclear plant, as well as higher income taxes and higher operation and maintenance expense.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Note 10 to the Financial Statements and "Part II. Other Information - Item 1A. Risk Factors" in this Form 10-Q and "Item 1. Business," and "Item 1A. Risk Factors" in the 2010 Form 10-K for PPL Energy Supply for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Unregulated Gross Energy Margins." "Unregulated Gross Energy Margins" is a single financial performance measure of PPL Energy Supply's competitive energy non-trading and trading activities. In calculating this measure, PPL Energy Supply's energy revenues, which include operating revenues associated with certain PPL Energy Supply businesses that are classified as discontinued operations, are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges, gross receipts tax, which is recorded in "Taxes, other than income", and operating expenses associated with certain PPL Energy Supply businesses that are classified as discontinued operations. This performance measure is relevant to PPL Energy Supply due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant swings in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Wholesale energy marketing" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are recorded in "Wholesale energy marketing to affiliate" revenue. In addition, PPL Energy Supply excludes from "Unregulated Gross Energy Margins" energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of PPL Energy Supply's competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Also included in this energy-related economic activity is the ineffective portion of qualifying cash flow hedges, the monetization of certain full-requirement sales contracts and premium amortization associated with options. This economic activity is deferred, with the exception of the full-requirement sales contracts that were monetized, and included in unregulated gross energy margins over the delivery period that was hedged or upon realization. This measure is not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL Energy Supply believes that "Unregulated Gross Energy Margins" provides another criterion to make investment decisions. PPL Energy Supply's management also uses "Unregulated Gross Energy Margins" in measuring certain PPL corporate performance goals used in determining variable compensation. This performance measure is used, in conjunction with other information, internally by senior management and PPL's Board of Directors to manage PPL Energy Supply's operations, analyze actual results compared to budget and measure certain corporate financial goals used in determining variable compensation.

Reconciliation of Non-GAAP Financial Measures

The following table reconciles "Operating Income" to "Unregulated Gross Energy Margins" as defined by PPL Energy Supply for the periods ended June 30.

	2011 Three Months			2010 Three Months		
	Unregulated Gross Energy Margins	**Other (a)**	**Operating Income (b)**	**Unregulated Gross Energy Margins**	**Other (a)**	**Operating Income (b)**
Operating Revenues						
Wholesale energy marketing						
Realized	$ 716	$ 16 (c)	$ 732	$ 1,219	$ 12 (c)	$ 1,231
Unrealized economic activity		(44) (c)	(44)		(666) (c)	(666)
Wholesale energy marketing to affiliate	4		4	64		64
Unregulated retail electric and gas	180	1	181	103	(2)	101
Net energy trading margins	10		10	5		5
Energy-related businesses		114	114		100	100
Total Operating Revenues	910	87	997	1,391	(556)	835
Operating Expenses						
Fuel	250	(42) (d)	208	252	6	258
Energy purchases						
Realized	150	76 (e)	226	529	1 (e)	530
Unrealized economic activity		(109) (e)	(109)		(445) (e)	(445)
Energy purchases from affiliate	1		1			
Other operation and maintenance	9	279	288	6	248	254
Depreciation		60	60		60	60
Taxes, other than income	7	9	16	4	7	11
Energy-related businesses		112	112		93	93
Total Operating Expenses	417	385	802	791	(30)	761
Discontinued Operations				21	(21) (f)	
Total	$ 493	$ (298)	$ 195	$ 621	$ (547)	$ 74

	2011 Six Months							2010 Six Months				
	Unregulated Gross Energy Margins		Other (a)			Operating Income (b)	Unregulated Gross Energy Margins		Other (a)			Operating Income (b)
Operating Revenues												
Wholesale energy marketing												
Realized	$	1,738	$	32	(c)	$ 1,770	$	2,565	$	25	(c)	$ 2,590
Unrealized economic activity				13	(c)	13				(242)	(c)	(242)
Wholesale energy marketing to affiliate		10				10		179				179
Unregulated retail electric and gas		323		5		328		197		8		205
Net energy trading margins		21				21		16				16
Energy-related businesses				224		224				181		181
Total Operating Revenues		2,092		274		2,366		2,957		(28)		2,929
Operating Expenses												
Fuel		534		(66)	(d)	468		489		(1)		488
Energy purchases												
Realized		377		163	(e)	540		1,130			(e)	1,130
Unrealized economic activity				(127)	(e)	(127)				118	(e)	118
Energy purchases from affiliate		2				2		1				1
Other operation and maintenance		13		520		533		13		539		552
Depreciation				119		119				117		117
Taxes, other than income		14		18		32		6		16		22
Energy-related businesses				220		220				174		174
Total Operating Expenses		940		847		1,787		1,639		963		2,602
Discontinued Operations		12		(12)	(f)			46		(46)	(f)	
Total	$	1,164	$	(585)		$ 579	$	1,364	$	(1,037)		$ 327

(a) Represents amounts excluded from Margins.
(b) As reported on the Statement of Income.
(c) Represents revenue associated with energy-related economic activity. This activity is described in the "Commodity Price Risk (Non-trading) - Economic Activity" section of Note 14 to the Financial Statements. The three and six months ended June 30, 2011 includes a pre-tax gain of $6 million and $12 million related to the amortization of option premiums and a pre-tax gain of $10 million and $20 million related to the monetization of certain full-requirement sales contracts. In addition, the three and six months ended June 30, 2010 includes a pre-tax gain of $12 million and $25 million related to the amortization of option premiums.
(d) Primarily relates to the $50 million spent nuclear fuel litigation settlement and economic activity related to fuel.
(e) Represents expenses associated with energy-related economic activity. This activity is described in the "Commodity Price Risk (Non-trading) - Economic Activity" section of Note 14 to the Financial Statements. The six months ended June 30, 2011 includes a pre-tax loss of $1 million related to the amortization of option premiums and the three and six months ended June 30, 2011 includes a pre-tax loss of $76 million and $164 million related to the monetization of certain full-requirement sales contracts. In addition the three months ended June 30, 2010 includes a pre-tax loss of $1 million related to the amortization of option premiums.
(f) Represents the net of certain revenues and expenses associated with certain businesses that are classified as discontinued operations. These revenues and expenses are not reflected in "Operating Income" on the Statements of Income.

Changes in Non-GAAP Financial Measures

Unregulated Gross Energy Margins are generated through PPL Energy Supply's competitive non-trading and trading activities. PPL Energy Supply's non-trading energy business is managed on a geographic basis that is aligned with its generation fleet. The following table shows PPL Energy Supply's non-GAAP financial measure, Unregulated Gross Energy Margins, for the periods ended June 30, as well as the change between periods. The factors that gave rise to the changes are described below the table.

	Three Months			Six Months		
	2011	2010	Change	2011	2010	Change
Non-trading						
Eastern U.S.	$ 395	$ 528	$ (133)	$ 972	$ 1,177	$ (205)
Western U.S.	88	88		171	171	
Net energy trading	10	5	5	21	16	5
Total	$ 493	$ 621	$ (128)	$ 1,164	$ 1,364	$ (200)

Eastern U.S. results were lower during the three and six months ended June 30, 2011, compared with the same period in 2010, as a result of lower margins on baseload units, primarily due to the timing of the planned refueling and up-rate outage and the unplanned turbine blade replacement outages at the Susquehanna nuclear plant of $91 million and $58 million, lower pricing (including lower PJM basis and FTR values) of $42 million and $94 million, higher supply costs from the generation fleet of $10 million and $15 million and lower margins on intermediate and peaking units driven by the assets sold in the first quarter of 2011 of $14 million and $16 million. Partially offsetting the decrease were higher margins from the full-requirement sales contracts of $33 million and $51 million. In addition, the unfavorable variance for the six months ended June 30, 2011, included gains of $27 million related to the monetization of certain full-requirement sales contracts in 2010 that rebalanced the business and portfolio.

Other Operation and Maintenance

Changes in other operation and maintenance expense for the periods ended June 30, 2011 compared with 2010 were due to:

	Three Months	Six Months
Montana hydroelectric litigation (a)		$ (47)
Susquehanna nuclear plant costs (b)	$ 49	28
Outage and other costs at fossil/hydroelectric plants (c)	(16)	2
Impacts from emission allowances	(7)	(10)
Gain on disposition of RECs	4	8
Other	4	
Total	$ 34	$ (19)

(a) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. As a result, in the first quarter of 2010, PPL Montana recorded a pre-tax charge of $56 million, representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. The portion of the total charge recorded to other operation and maintenance totaled $49 million. See Note 10 for additional information.

(b) Both periods were $9 million higher due to the 2011 dual-unit turbine blade replacement outage at the Susquehanna nuclear plant. The three-month period was $36 million higher due to the timing and increased cost of the refueling outage. The six-month period was $10 million higher due to an increase in costs related to the refueling outage.

(c) The decrease for the three-month period includes $19 million related to the timing of maintenance outages.

Taxes, Other Than Income

Taxes, other than income increased by $5 million and $10 million for the three and six months ended June 30, 2011, compared to the same periods in 2010, primarily due to higher Pennsylvania gross receipts tax expense due to an increase in electricity revenues at PPL EnergyPlus as customers continue to select alternative suppliers in 2011. This tax is included in "Unregulated Gross Energy Margins" above.

Other Income (Expense) - net

The $7 million increase in other income (expense) - net for the six months ended June 30, 2011 compared with the same period in 2010 was primarily attributable to an increase of $7 million of earnings on securities in the NDT funds.

Interest Expense

Changes in interest expense for the periods ended June 30, 2011 compared with 2010 were due to:

	Three Months	Six Months
Capitalized interest	$ (4)	$ (8)
Montana hydroelectric litigation (a)		(6)
Long-term debt interest expense	3	4
Interest on short-term debt	3	6
Total	$ 2	$ (4)

(a) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision. As a result, in the first quarter of 2010, PPL Montana recorded a pre-tax charge of $56 million, representing estimated rental compensation for the first quarter of 2010 and prior years, including interest.

Income Taxes

Changes in income taxes for the periods ended June 30, 2011 compared with 2010 were due to:

	Three Months	Six Months
Higher pre-tax book income	$ 48	$ 108
State valuation allowance adjustments		6
Domestic manufacturing deduction (a)	8	12
Health Care Reform		(5)
Other		(5)
Total	$ 56	$ 116

(a) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation eliminates the estimated income tax benefit related to the domestic manufacturing deduction in 2011. See Note 5 to the Financial Statements for additional information on income taxes.

Discontinued Operations

Income (Loss) from Discontinued Operations (net of taxes) decreased by $61 million and $134 million for the three and six months ended June 30, 2011, compared with the same periods in 2010. The decreases were primarily due to the presentation of PPL Global as Discontinued Operations as a result of the January 2011 distribution by PPL Energy Supply of its membership interest in PPL Global to its parent, PPL Energy Funding. In 2011, the results of PPL Global are no longer consolidated within PPL Energy Supply. See "Discontinued Operations" in Note 8 to the Financial Statements for additional information on the distribution, as well as information on the sale of certain non-core generation facilities in 2011.

Financial Condition

Liquidity and Capital Resources

PPL Energy Supply had the following at:

	June 30, 2011	December 31, 2010
Cash and cash equivalents	$ 422	$ 661
Short-term debt	$ 250	$ 531

The $239 million decrease in PPL Energy Supply's cash and cash equivalents position was primarily the net result of:

- a distribution of $325 million of cash included in the net assets of PPL Global distributed to member;
- capital expenditures of $324 million;
- a net decrease in short-term debt of $100 million (excluding short-term debt of PPL Global that existed at December 31, 2010;
- a net increase in note receivables from affiliates of $37 million;
- proceeds of $381 million from the sale of certain non-core generation facilities; and
- cash provided by operating activities of $188 million.

PPL Energy Supply's cash provided by operating activities decreased by $414 million for the six months ended June 30, 2011, compared with the same period in 2010, primarily due to changes in counterparty collateral requirements of $356 million and increased domestic defined benefit plan contributions of $85 million (excluding the impact of WPD's 2010 contributions). These decreases were partially offset by the receipt in 2011 of a federal income tax refund of $71 million.

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. PPL Global's impact on cash provided by operating activities for the six months ended June 30, 2010 was not material. See Note 8 to the Financial Statements for additional information on the distribution.

Credit Facilities

At June 30, 2011, PPL Energy Supply's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
Syndicated Credit Facility (a)	$ 3,000	$ 250	$ 122	$ 2,628
Letter of Credit Facility	200	n/a	55	145
Total PPL Energy Supply Credit Facilities (b)	$ 3,200	$ 250	$ 177	$ 2,773

(a) Outstanding borrowings under this facility decreased on a net basis by $100 million since December 31, 2010.
(b) In March 2011, PPL Energy Supply's $300 million Structured Credit Facility expired. PPL Energy Supply's obligations under this facility were supported by a $300 million letter of credit issued on PPL Energy Supply's behalf under a separate, but related $300 million 5-year credit agreement, which also expired in March 2011.

The commitments under PPL Energy Supply's credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 11% of the total committed capacity.

See Note 7 to the Financial Statements for further discussion of PPL Energy Supply's credit facilities.

Long-term Debt Securities

In July 2011, PPL Energy Supply redeemed at par the entire $250 million aggregate principal amount of its 7.00% Senior Notes due 2046.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of PPL Energy Supply and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL Energy Supply and its subsidiaries are based on information provided by PPL Energy Supply and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL Energy Supply or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in PPL Energy Supply's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets.

In prior periodic reports, PPL Energy Supply described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, PPL Energy Supply is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to PPL Energy Supply's ratings, but without stating what ratings have been assigned to PPL Energy Supply or its subsidiaries, or their securities. The ratings assigned by the rating agencies to PPL Energy Supply and its subsidiaries and their respective securities may be found, without charge, on each of the respective rating agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of PPL's then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

- Moody's affirmed its ratings for PPL Energy Supply;
- S&P revised the outlook and lowered the issuer and senior unsecured ratings of PPL Energy Supply; and
- Fitch affirmed its ratings for PPL Energy Supply.

In April 2011, following the completion of PPL's acquisition of WPD Midlands, S&P revised the outlook and affirmed its ratings for PPL Energy Supply.

In May 2011, Fitch affirmed its rating and maintained its outlook for PPL Montana's Pass Through Certificates due 2020.

Ratings Triggers

PPL Energy Supply and its subsidiaries have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements and interest rate instruments, which contain provisions requiring PPL Energy Supply and its subsidiaries to post additional collateral, or permitting the counterparty to terminate the contract, if PPL Energy Supply or its subsidiaries' credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at June 30, 2011. At June 30, 2011, if PPL Energy Supply's or its subsidiaries' credit rating had been below investment grade, the maximum amount that PPL Energy Supply would have been required to post as additional collateral to counterparties was $359 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations and interest rate contracts.

For additional information on PPL Energy Supply's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Form 8-K dated June 24, 2011.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about PPL Energy Supply's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

PPL Energy Supply segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL Energy Supply's generation assets, full-requirement sales contracts and retail activities. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. The net fair value of economic positions at June 30, 2011 and December 31, 2010 was a net liability of $235 million and $389 million. See Note 14 to the Financial Statements for additional information on economic activity.

To hedge the impact of market price volatility on PPL Energy Supply's energy-related assets, liabilities and other contractual arrangements, PPL Energy Supply both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL Energy Supply's non-trading commodity derivative contracts mature at various times through 2017.

The following table sets forth the changes in net fair value of PPL Energy Supply's non-trading commodity derivative contracts for the periods ended June 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Six Months	
	2011	2010	2011	2010
Fair value of contracts outstanding at the beginning of the period	$ 998	$ 1,726	$ 958	$ 1,280
Contracts realized or otherwise settled during the period	(83)	(108)	(135)	(234)
Fair value of new contracts entered into during the period	32	(11)	15	7
Changes in fair value attributable to changes in valuation techniques (a)		(23)		(23)
Other changes in fair value	(51)	(281)	58	273
Fair value of contracts outstanding at the end of the period	$ 896	$ 1,303	$ 896	$ 1,303

(a) In June 2010, PPL received market bids for certain full-requirement sales contracts that were monetized in early July. See Note 14 to the Financial Statements for additional information. At June 30, 2010, these contracts were valued based on the bids received (the market approach). In prior periods, the fair value of these contracts was measured using the income approach.

The following table segregates the net fair value of PPL Energy Supply's non-trading commodity derivative contracts at June 30, 2011, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

	Net Asset (Liability)				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Source of Fair Value					
Prices quoted in active markets for identical instruments					
Prices based on significant other observable inputs	$ 444	$ 415	$ 11		$ 870
Prices based on significant unobservable inputs	5	(23)	13	$ 31	26
Fair value of contracts outstanding at the end of the period	$ 449	$ 392	$ 24	$ 31	$ 896

PPL Energy Supply sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL Energy Supply were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties with which it has energy contracts and other factors could affect PPL Energy Supply's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL Energy Supply attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future.

Commodity Price Risk (Trading)

PPL Energy Supply's trading contracts mature at various times through 2015. The following table sets forth changes in the net fair value of PPL Energy Supply's trading commodity derivative contracts for the periods ended June 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Six Months	
	2011	2010	2011	2010
Fair value of contracts outstanding at the beginning of the period	$ 7	$ 2	$ 4	$ (6)
Contracts realized or otherwise settled during the period	1	4	3	
Fair value of new contracts entered into during the period	5	2	8	2
Other changes in fair value	2	(4)		8
Fair value of contracts outstanding at the end of the period	$ 15	$ 4	$ 15	$ 4

Unrealized gains of approximately $6 million will be reversed over the next three months as the transactions are realized.

The following table segregates the net fair value of trading commodity derivative contracts at June 30, 2011, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

	Net Asset (Liability)				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Source of Fair Value					
Prices based on significant other observable inputs	$ 6	$ 7	$ 2		$ 15
Fair value of contracts outstanding at the end of the period	$ 6	$ 7	$ 2		$ 15

VaR Models

A VaR model is utilized to measure commodity price risk in domestic gross energy margins for the non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's conservative hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the period was as follows.

	Trading VaR		Non-Trading VaR	
	Six Months Ended June 30, 2011	**Twelve Months Ended December 31, 2010**	**Six Months Ended June 30, 2011**	**Twelve Months Ended December 31, 2010**
95% Confidence Level, Five-Day Holding Period				
Period End	$ 2	$ 1	$ 7	$ 5
Average for the Period	2	4	5	7
High	4	9	7	12
Low	1	1	5	4

The trading portfolio includes all speculative positions, regardless of the delivery period. All positions not considered speculative are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at June 30, 2011.

Interest Rate Risk

PPL Energy Supply and its subsidiaries have issued debt to finance their operations, which exposes them to interest rate risk. PPL and PPL Energy Supply utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in PPL Energy Supply's debt portfolio, adjust the duration of its debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of PPL Energy Supply's debt portfolio due to changes in the absolute level of interest rates. PPL Energy Supply had no interest rate hedges outstanding at June 30, 2011.

At June 30, 2011, PPL Energy Supply's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL Energy Supply is also exposed to changes in the fair value of its debt portfolio. PPL Energy Supply estimated that a 10% decrease in interest rates at June 30, 2011 would increase the fair value of its debt portfolio by $41 million.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the Susquehanna nuclear plant. At June 30, 2011, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on PPL Energy Supply's Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its NDT policy statement. At June 30, 2011, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated $46 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk

See Notes 11, 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL Energy Supply's Form 8-K dated June 24, 2011 for additional information.

Foreign Currency Translation

As noted previously, in January 2011, PPL Energy Supply distributed its interest in PPL Global to its parent, PPL Energy Funding. As a result, PPL Energy Supply no longer consolidates any foreign subsidiaries and has no foreign currency translation component within AOCI. In 2010, the British pound sterling weakened in relation to the U.S. dollar. Changes in these exchange rates resulted in a foreign currency translation loss of $164 million for the six months ended June 30, 2010, which primarily reflected a $422 million reduction to PP&E offset by a reduction of $258 million to net liabilities. These adjustments, net of tax, resulting from translation are recorded in AOCI.

Related Party Transactions

PPL Energy Supply is not aware of any material ownership interests or operating responsibility by senior management of PPL Energy Supply in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with PPL Energy Supply. See Note 11 to the Financial Statements for additional information on related party transactions between PPL Energy Supply and affiliates.

Acquisitions, Development and Divestitures

PPL Energy Supply continuously evaluates potential acquisitions, divestitures and development projects as opportunities arise or are identified. Development projects are continuously reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. See Note 8 to the Financial Statements for information on the more significant activities.

Environmental Matters

Protection of the environment is a priority for PPL Energy Supply and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to PPL Energy Supply's air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc.; and may impact the costs for their products or their demand for PPL Energy Supply's services. See "Overview" and Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in PPL Energy Supply's 2010 Form 10-K for additional information on environmental matters.

New Accounting Guidance

See Note 18 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: price risk management, defined benefits, asset impairment, loss accruals, AROs and income taxes. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Energy Supply's Form 8-K dated June 24, 2011 for a discussion of each critical accounting policy.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with PPL Electric's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL Electric's 2010 Form 10-K. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides an overview of PPL Electric's business strategy, financial and operational highlights, and key regulatory matters.

- "Results of Operations" provides a summary of PPL Electric's earnings and a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on PPL Electric's Statements of Income, comparing the three and six months ended June 30, 2011 with the same periods in 2010.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL Electric's liquidity position and credit profile. This section also includes a discussion of rating agency decisions.

- "Financial Condition - Risk Management" provides an explanation of PPL Electric's risk management programs relating to market and credit risk.

Overview

Introduction

PPL Electric is an electricity delivery service provider in eastern and central Pennsylvania with headquarters in Allentown, Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service territory and provides electricity supply to retail customers in that territory as a PLR under the Customer Choice Act.

Business Strategy

PPL Electric's strategy and principal challenge is to own and operate its electricity delivery business at the most efficient cost while maintaining high quality customer service and reliability. PPL Electric anticipates that it will have significant capital expenditure requirements in the future. In order to manage financing costs and access to credit markets, a key objective for PPL Electric's business is to maintain a strong credit profile. PPL Electric continually focuses on maintaining an appropriate capital structure and liquidity position.

Timely recovery of costs applicable to the replacement of aging distribution assets is required in order to maintain strong cash flows and a strong credit profile. Traditionally, such cost recovery would be pursued through periodic base rate case proceedings with the PUC. As such costs continue to increase, more frequent rate case proceedings may be required or an alternative rate making process would need to be implemented in order to achieve more timely recovery.

Transmission costs are recovered through a FERC Formula Rate mechanism which is updated annually for costs incurred and assets placed in service. Accordingly, increased costs including the replacement of aging transmission assets and the PJM-approved Regional Transmission Line Expansion Plan are recovered on a timely basis.

Financial and Operational Highlights

Net Income Available to PPL Corporation

Net Income Available to PPL Corporation for the three and six months ended June 30, 2011 was $36 million and $88 million compared to $16 million and $53 million for the same periods in 2010. This represents a 125% and 66% increase over 2010. These increases reflect the following after-tax impacts:

	Three Months		Six Months	
Distribution base rate increase effective in January 2011	$	8	$	22
Bonus tax depreciation		2		7
Lower vegetation management costs		5		5
Higher contractor costs		(1)		(4)
Other		6		5
	$	20	$	35

Storm Recovery

Three series of powerful thunderstorms and four confirmed tornadoes impacted Pennsylvania's Susquehanna Valley and parts of northeastern Pennsylvania in May 2011, causing extensive damage to PPL Electric's transmission and distribution facilities. The restoration cost associated with the storms of $15 million had minimal financial impact on PPL Electric, since the capital costs and expenses were offset by an insurance recovery of $14 million.

See "Results of Operations" below for further discussion and analysis of the consolidated results of operations.

Regulatory Matters

PUC Investigation of Retail Market

In April 2011, the PUC opened an investigation of Pennsylvania's retail electricity market. The investigation will be conducted in two phases and will probably not be completed before the end of the year. Phase one will address the status of the current retail market and explore potential changes. In July 2011, the PUC entered an order initiating phase two of the investigation which will study how best to address issues identified by the PUC as being most relevant to improving the current retail electricity market. PPL Electric cannot predict the outcome of the investigation. See Note 6 to the Financial Statements for additional information.

Regional Transmission Line Expansion Plan

In 2007, PJM directed the construction of a new 150-mile, 500-kilovolt transmission line between the Susquehanna substation in Pennsylvania and the Roseland substation in New Jersey that it identified as essential to long-term reliability of the Mid-Atlantic electricity grid. PJM determined that the line is needed to prevent potential overloads that could occur as early as 2012 on several existing transmission lines in the interconnected PJM system. PJM has directed PPL Electric to construct the portion of the Susquehanna-Roseland line in Pennsylvania and has directed Public Service Electric & Gas Company to construct the portion of the line in New Jersey, in each case by June 1, 2012. PPL Electric's estimated share of the project costs is approximately $500 million.

This project is pending certain regulatory approvals. PPL Electric cannot predict the ultimate outcome or timing of these proceedings. In addition, both companies are working with the National Park Service to obtain any approvals that may be required to route the line through the Delaware Water Gap National Recreation Area. The National Park Service has stated that its review will not be completed until January 2013. PPL Electric cannot predict the ultimate outcome or timing of the National Park Service approval.

PPL Electric anticipates the delays in the approval process will delay the in-service date to 2014 or later. PPL Electric also cannot predict what action, if any, PJM might take in the event of a delay to its scheduled in-service date for the new line. PJM continues to reaffirm the need for this project.

Legislation – Regulatory Procedures and Mechanisms

In June 2011, the Pennsylvania House Consumer Affairs Committee approved legislation that would authorize the PUC to approve regulatory procedures and mechanisms to provide for more timely recovery of a utility's costs. Alternative ratemaking is important for PPL Electric as it begins an era of significant increasing capital investment related to the asset optimization program focused on the replacement of aging distribution assets. Those procedures and mechanisms include, but are not limited to, the use of a fully projected test year and an automatic adjustment clause to recover capital costs and related operating expenses. The legislation is now before the full Pennsylvania House of Representatives. PPL Electric is working with other stakeholders to support passage of this legislation.

Results of Operations

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods.

Earnings

Net Income Available to PPL Corporation for the periods ended June 30 was:

	Three Months			Six Months		
	2011	2010	% Change	2011	2010	% Change
Operating Revenue	$ 440	$ 522	(16)	$ 998	$ 1,335	(25)
Energy purchases	169	209	(19)	420	619	(32)
Energy purchases from affiliate	4	64	(94)	10	179	(94)
Other operation and maintenance	126	131	(4)	256	251	2
Depreciation	37	33	12	70	67	4
Taxes, other than income	22	29	(24)	57	76	(25)
Total Operating Expenses	358	466	(23)	813	1,192	(32)
Other Income (Expense) - net	1	2	(50)	1	3	(67)
Interest Income from Affiliate					1	(100)
Interest Expense	24	24		48	50	(4)
Income Taxes	19	11	73	42	32	31
Distributions on Preferred Securities	4	7	(43)	8	12	(33)
Net Income Available to PPL Corporation	$ 36	$ 16	125	$ 88	$ 53	66

The changes in the components of Net Income Available to PPL Corporation for the periods ended June 30, 2011 and 2010 were due to the following factors. See "Statement of Income Analysis - Margins" for component details.

	Three Months	Six Months
Pennsylvania gross delivery margins	$ 19	$ 48
Other operation and maintenance	11	(3)
Income taxes	(8)	(10)
Other	(2)	
Total	$ 20	$ 35

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of gross margins from the Pennsylvania regulated electric delivery operations.

- Lower other operation and maintenance expense for the three-month period primarily due to $8 million in lower vegetation management costs. In addition, the three-month period was also impacted by $10 million in restoration costs associated with May 2011 storms, which was partially offset by an $8 million insurance recovery.

  Higher other operation and maintenance expense for the six-month period primarily due to $7 million in higher contractor expenses as a result of increased project work and $10 million in higher restoration costs associated with May 2011 storms, partially offset by an $8 million insurance recovery and $8 million in lower vegetation management costs.

- Higher income taxes for both periods primarily due to higher pre-tax book income of $11 million and $17 million for the three and six-month periods, partially offset by the impact of flow-through regulated tax depreciation that is primarily related to the Pennsylvania Department of Revenue interpretive guidance regarding 100% bonus depreciation of $2 million and $7 million for the three and six-month periods.

Outlook

Earnings are expected to be higher in 2011, compared with 2010, due to higher distribution revenues resulting from the distribution base rate increase effective January 1, 2011.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2 and Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business," and "Item 1A. Risk Factors" in PPL Electric's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Pennsylvania Gross Delivery Margins." "Pennsylvania Gross Delivery Margins" is a single financial performance measure of PPL Electric's Pennsylvania regulated electric delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases", "Energy purchases from affiliate," "Other operation and maintenance" expense, which is primarily Act 129 costs, and "Taxes, other than income", which is primarily gross receipts tax. As a result, this measure represents the net revenues from PPL Electric's Pennsylvania regulated electric delivery operations. This measure is not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL Electric believes that "Pennsylvania Gross Delivery Margins" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management and PPL's Board of Directors to manage PPL Electric's operations and analyze actual results to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Pennsylvania Gross Delivery Margins" as defined by PPL Electric for the periods ended June 30. Footnotes to the reconciliations are included at the end of the six month reconciliation tables.

	2011 Three Months			2010 Three Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues						
Retail electric	$ 436		$ 436	$ 520		$ 520
Electric revenue from affiliate	4		4	2		2
Total Operating Revenues	440		440	522		522
Operating Expenses						
Energy purchases	169		169	209		209
Energy purchases from affiliate	4		4	64		64
Other operation and maintenance	29	$ 97	126	23	$ 108	131
Depreciation		37	37		33	33
Taxes, other than income	20	2	22	27	2	29
Total Operating Expenses	222	136	358	323	143	466
Total	$ 218	$ (136)	$ 82	$ 199	$ (143)	$ 56

	2011 Six Months			2010 Six Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues						
Retail electric	$ 990		$ 990	$ 1,331		$ 1,331
Electric revenue from affiliate	8		8	4		4
Total Operating Revenues	998		998	1,335		1,335
Operating Expenses						
Energy purchases	420		420	619		619
Energy purchases from affiliate	10		10	179		179
Other operation and maintenance	47	$ 209	256	45	$ 206	251
Depreciation		70	70		67	67
Taxes, other than income	53	4	57	72	4	76
Total Operating Expenses	530	283	813	915	277	1,192
Total	$ 468	$ (283)	$ 185	$ 420	$ (277)	$ 143

(a) Represents amounts that are excluded from Margins.
(b) As reported on the Statement of Income.

Changes in Non-GAAP Financial Measures

The following table shows PPL Electric's non-GAAP financial measure, "Pennsylvania Gross Delivery Margins" for the periods ended June 30, as well as the change between periods. The factors that gave rise to the change are described below the table.

	Three Months			Six Months		
	2011	2010	Change	2011	2010	Change
PA Gross Delivery Margins by Component						
Distribution	$ 173	$ 157	$ 16	$ 381	$ 336	$ 45
Transmission	45	42	3	87	84	3
Total	$ 218	$ 199	$ 19	$ 468	$ 420	$ 48

Distribution

The approved distribution rate case increased rates approximately 1.6% effective January 1, 2011, which improved distribution margins by $14 million and $38 million for the three and six months ended June 30, 2011, compared with the same period in 2010. Increases of $1 million and $7 million resulted from favorable weather. Weather-related variances for PPL Electric are calculated based on a ten-year historical average.

Transmission

Transmission margins were higher during the three and six months ended June 30, 2011, compared with the same period in 2010, as the result of higher FERC formula-based rates driven by increased investment in rate base, an increase in the costs of capital due to an increase in equity and the recovery of additional costs.

Other Operation and Maintenance

Changes in other operation and maintenance expense for the periods ended June 30, 2011 compared with 2010 were due to:

	Three Months	Six Months
Contractor-related expenses (a)	$ 2	$ 7
Vegetation management (b)	(8)	(8)
PUC-reportable storm costs, net of insurance recovery	1	3
Other		3
Total	$ (5)	$ 5

(a) Primarily related to increased utilization of contractors for system reliability and asset optimization programs.
(b) Higher expenses as a result of an increased focus on vegetation management for the three and six-month periods ending 2010 primarily due to the Wire zone - Border zone program to safeguard system reliability and to comply with recently enacted legislation.

Taxes, Other Than Income

Taxes, other than income decreased by $7 million and $19 million during the three and six months ended June 30, 2011, compared with the same periods in 2010, primarily due to lower Pennsylvania gross receipts tax expense due to a decrease in retail electricity revenue as customers continue to select alternative suppliers in 2011. This tax is included in "Pennsylvania Gross Delivery Margins" above. The decreases for both periods were also impacted by the amortization of a PURTA refund of $5 million which is also included in "Pennsylvania Gross Delivery Margins."

Financing Costs

Financing costs, which consist of "Interest Expense" and "Distributions on Preferred Securities," decreased by $3 million and $6 million for the three and six months ended June 30, 2011, compared with the same periods in 2010. The decrease for both periods was primarily due to a premium paid to redeem all of PPL Electric's preferred stock in the second quarter of 2010.

Income Taxes

Changes in income taxes for the periods ended June 30, 2011 compared to 2010 were due to:

	Three Months	Six Months
Higher pre-tax book income	$ 11	$ 17
Depreciation not normalized (a)	(2)	(5)
Other	(1)	(2)
Total	$ 8	$ 10

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for Federal tax purposes. The 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation.

Financial Condition

Liquidity and Capital Resources

PPL Electric had the following at:

	June 30, 2011	December 31, 2010
Cash and cash equivalents	$ 4	$ 204

The $200 million decrease in PPL Electric's cash and cash equivalents position was primarily the net result of:

- capital expenditures of $244 million;
- the payment of $52 million of common stock dividends to PPL;
- cash provided by operating activities of $63 million; and
- a net increase in note payable to affiliate of $37 million.

PPL Electric's cash provided by operating activities improved by $90 million for the six months ended June 30, 2011, compared with the same period in 2010, due to a lower estimated annual gross receipts tax payment made in 2011 versus 2010 of $94 million and the receipt in 2011 of a federal income tax refund of $56 million, partially offset by an increase in defined benefit plan contributions of $58 million.

Credit Facilities

At June 30, 2011, PPL Electric's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
Syndicated Credit Facility (a)	$ 200		$ 13	$ 187
Asset-backed Credit Facility (b)	150		n/a	150
Total PPL Electric Credit Facilities	$ 350		$ 13	$ 337

(a) The commitments under this credit facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 6% of the total committed capacity.

(b) PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary pledges these assets to secure loans of up to an aggregate of $150 million from a commercial paper conduit sponsored by a financial institution. At June 30, 2011, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under this facility was limited to $107 million. In July 2011, PPL Electric and the subsidiary extended the expiration date of the credit agreement related to the asset-backed commercial paper program to July 2012.

See Note 7 to the Financial Statements for further discussion of PPL Electric's credit facilities.

Long-term Debt Securities

In July 2011, PPL Electric entered into a supplemental indenture that contains prospective amendments to its 2001 Mortgage Indenture, including amendments to reduce the amount of first mortgage bonds issuable on the basis of property additions from 100% of the cost or fair value (whichever is less, as determined in accordance with the terms of the indenture) of such property additions to 66-2/3% of such cost or fair value. Subsequently, PPL Electric issued $250 million of 5.20% First Mortgage Bonds due 2041. PPL Electric received proceeds of $246 million, net of discounts and underwriting fees. The net proceeds will be used for capital expenditures and other general corporate purposes. PPL Electric expects the prospective amendments to its 2001 Mortgage Indenture to become effective in the third quarter of 2011.

Also in July 2011, PPL Electric redeemed the entire $400 million aggregate principal amount of its 7.125% Senior Secured Bonds due 2013 for $458 million, plus accrued interest. See Note 7 to the Financial Statements for additional information.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt and preferred securities of PPL Electric. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL Electric are based on information provided by PPL Electric and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL Electric. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in PPL Electric's credit ratings could result in higher borrowing costs and reduced access to capital markets.

In prior periodic reports, PPL Electric described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, PPL Electric is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to PPL Electric's ratings, but without stating what ratings have been assigned to PPL Electric or its securities. The ratings assigned by the rating agencies to PPL Electric and its respective securities may be found, without charge, on each of the respective rating agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of the then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

- Moody's affirmed its ratings for PPL Electric;
- S&P revised the outlook and lowered the issuer, senior secured, preference stock and commercial paper ratings of PPL Electric; and
- Fitch affirmed its ratings for PPL Electric.

In April 2011, following the completion of PPL's acquisition of WPD Midlands, S&P revised the outlook for PPL Electric, raised its commercial paper rating and affirmed its issuer, senior secured and preference stock ratings.

In July 2011, S&P upgraded the senior secured rating for PPL Electric's first mortgage bonds following the execution of a supplemental indenture that provides for prospective amendments to PPL Electric's 2001 Mortgage Indenture, as discussed in "Long-term Debt Securities" above.

The Economic Stimulus Package

In April 2010, PPL Electric entered into an agreement with the DOE, in which the agency is to provide a grant for one-half of a $38 million smart grid project. The project involves installing and using smart grid technology to strengthen reliability, save energy and improve electric service for approximately 60,000 Harrisburg, Pennsylvania-area customers. It is expected to provide benefits beyond the Harrisburg region, helping to speed power restoration across PPL Electric's 29-county service territory. Work on the project is progressing on schedule, and PPL Electric is receiving reimbursements under the grant for costs incurred. The project is scheduled to be completed by the end of September 2012.

For additional information on PPL Electric's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Electric's 2010 Form 10-K.

Risk Management

Market Risk and Credit Risk

PPL Electric has issued debt to finance its operations, which exposes it to interest rate risk. PPL Electric had no potential annual exposure to increased interest expense, based on a 10% increase in interest rates, at June 30, 2011. PPL Electric estimated that a 10% decrease in interest rates at June 30, 2011 would increase the fair value of its debt portfolio by $64 million.

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management" in PPL Electric's 2010 Form 10-K for additional information on market and credit risk.

Related Party Transactions

PPL Electric is not aware of any material ownership interests or operating responsibility by senior management of PPL Electric in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with PPL Electric. See Note 11 to the Financial Statements for additional information on related party transactions between PPL Electric and affiliates.

Environmental Matters

Protection of the environment is a priority for PPL Electric and a significant element of its business activities. See "Item 1. Business - Environmental Matters" in PPL Electric's 2010 Form 10-K and Note 10 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Note 18 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: defined benefits, loss accruals, income taxes and regulatory assets and liabilities. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Electric's 2010 Form 10-K for a discussion of each critical accounting policy.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with LKE's Condensed Financial Statements and the accompanying Notes and with LKE's 2011 Registration Statement. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides an overview of LKE's business strategy, financial and operational highlights, and key regulatory matters.
- "Results of Operations" provides a summary of LKE's earnings and a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on LKE's Statements of Income, comparing the three and six months ended June 30, 2011 with the same periods in 2010.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of LKE's liquidity position and credit profile. This section also includes a discussion of rating agency decisions and capital expenditure projections.
- "Financial Condition - Risk Management" provides an explanation of LKE's risk management programs relating to market and credit risk.

Overview

Introduction

LKE, headquartered in Louisville, Kentucky, is a holding company with utility operations through its subsidiaries, LG&E and KU. LG&E and KU, which constitute substantially all of LKE's operations, are regulated utilities engaged in the generation, transmission, distribution and sale of electricity, primarily in Kentucky, Virginia and Tennessee. LG&E also engages in the distribution and sale of natural gas in Kentucky.

Successor and Predecessor Financial Presentation

LKE's Condensed Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010, and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, which are discussed in the Financial Statements in LKE's 2011 Registration Statement. The cost basis of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor periods are not comparable to the Predecessor periods; however, the core operations of LKE have not changed as a result of the acquisition.

Business Strategy

LKE's overall strategy is to provide reliable, safe and competitively priced energy to its customers.

Financial and Operational Highlights

Net Income

Net income for the three and six months ended June 30, 2011 was $41 million and $128 million, compared to $32 million and $92 million for the same periods in 2010, representing increases of 28% and 39%. These increases reflect the following after-tax impacts:

	Three Months	Six Months
Operating revenue increases as a result of increased rates, which became effective August 1, 2010	$ 21	$ 54
Higher depreciation primarily due to TC2 and E.W. Brown Flue Gas Desulfurization equipment	(9)	(16)
Other	(3)	(2)
	$ 9	$ 36

See "Results of Operations" below for further discussion and analysis of the results of operations.

Trimble County Unit 2 Construction

LG&E and KU constructed a 760 MW capacity base-load, coal-fired unit, TC2, which is jointly owned by LG&E (14.25%) and KU (60.75%), together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency (combined 25%). With limited exceptions, LG&E and KU took care, custody and control of TC2 in January 2011. LG&E and KU and the contractor have agreed to certain amendments to the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. A number of remaining issues regarding these matters are still under discussion with the contractors. See Note 10 to the Financial Statements for additional information.

Registration of Debt by LKE, LG&E and KU

In April 2011, LKE, LG&E and KU each filed a Registration Statement with the SEC, as agreed to in registration rights agreements entered into in connection with the issuances of senior notes and first mortgage bonds in November 2010, in transactions not registered under the Securities Act of 1933. The 2011 Registration Statements relate to offers to exchange LKE's senior notes or LG&E's and KU's first mortgage bonds issued in November 2010, with similar but registered securities. The 2011 Registration Statements became effective in June 2011, and the exchanges were completed in July 2011, with substantially all of the senior notes and first mortgage bonds being exchanged. See Note 7 to the Financial Statements and LKE's 2011 Registration Statement for additional information.

Regulatory Matters

Federal

Cross State Air Pollution Rule

In July 2011, the EPA signed the CSAPR which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. This rule applies to the Kentucky plants. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions. LG&E's and KU's initial review of the allocations under the CSAPR indicates that greater reductions in sulfur dioxide emissions will be required beginning in 2012 under the CSAPR than were required under the CAIR starting in 2015. For the initial phase of the rule beginning in 2012, sulfur dioxide allowance allocations are expected to meet the forecasted emissions based on present operations of existing scrubbers and coal supply. However, by the second phase beginning in 2014, LG&E and KU will likely have to take additional measures with regards to the operation and dispatch of their generating fleet, including upgrades or installation of new scrubbers for some generating units or retirement of certain other units. With respect to nitrogen oxide emissions, the CSAPR allocates a slightly lower amount of allowances compared to those under the CAIR. With uncertainty surrounding the trading program, other compliance options are being analyzed for the Kentucky fleet, such as installation of new technology, the retirement of certain units and modification of plant operations. LG&E and KU are seeking recovery of their expected costs to comply with the CSAPR and certain other EPA requirements through the ECR plan filed with the KPSC in June, 2011. Additionally, Kentucky plants may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. LG&E and KU anticipate that some of the measures required for compliance with CSAPR such as upgraded or new scrubbers at some of their plants and retirement of certain units may also be necessary to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the economic impact to LKE could be significant. See Notes 6 and 10 to the Financial Statements for additional information on the CSAPR and the regulatory proceeding.

Kentucky and Virginia

Integrated Resource Plan (IRP) Filing

LG&E and KU filed their joint IRP with the KPSC in April 2011. This plan is provided to the KPSC every three years and is intended to give the KPSC a point-in-time look at LG&E's and KU's expectations of future resource needs. It does not represent a commitment or decision by LG&E or KU, nor does it represent a request for approval.

Impending environmental regulation including the CSAPR, Ambient Air Quality Standards, the Maximum Achievable Control Technology Rule, the Coal Combustion Residuals Rule and the Cooling Water Intake Rule could result in the retirements of older, smaller coal-fired units and therefore the IRP assumes potential retirements of coal-fired capacity and replacement by combined-cycle gas units. In addition, the IRP assumes peak demand reductions through existing or expanded DSM or energy efficiency programs. See Notes 6 and 10 to the Financial Statements for additional information.

ECR Filing - Environmental Upgrades

In June 2011, in order to achieve compliance with new and pending mandated federal EPA regulations, LG&E and KU filed an ECR plan with the KPSC requesting approval to install environmental upgrades for certain of their coal-fired plants along with the recovery of the expected $2.5 billion in costs. The ECR plan details many upgrades that will be made to certain of their coal-fired generating stations to continue to be compliant with EPA regulations. See Notes 6 and 10 to the Financial Statements for additional information.

Virginia Rate Case

On April 1, 2011, KU filed an application with the VSCC requesting an annual increase in electric base rates for its Virginia jurisdictional customers of $9 million, or 14%. While KU cannot predict the amount of the allowed increase, it expects the new rates to go into effect in January 2012. See Note 6 to the Financial Statements for additional information.

Results of Operations

As previously noted, LKE's results for the three and six months ended June 30, 2011 are on a basis of accounting different from its results for the three and six months ended June 30, 2010. When discussing LKE's results of operations for 2011, compared with 2010, material differences resulting from the different bases of accounting will be isolated for purposes of comparability. See "Overview - Successor and Predecessor Financial Presentation" for further information.

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future operating results. Due to weather, revenue and earnings are generally highest during the first and third quarters and lowest in the second quarter.

Earnings

Net Income for the periods ended June 30 was:

	Three Months			Six Months		
	2011 Successor	2010 Predecessor	% Change	2011 Successor	2010 Predecessor	% Change
Operating Revenues	$ 638	$ 603	6	$ 1,404	$ 1,316	7
Fuel	206	209	(1)	421	418	1
Energy purchases	40	40		147	161	(9)
Other operation and maintenance	198	172	15	379	332	14
Depreciation	84	69	22	165	138	20
Taxes, other than income	9	7	29	18	14	29
Total Operating Expenses	537	497	8	1,130	1,063	6
Other income (expense) - net		(14)	(100)	(1)	(14)	(93)
Interest Expense	36	46	(22)	72	92	(22)
Income Taxes	24	15	60	73	53	38
Income (Loss) from Discontinued Operations (net of income taxes)		1	(100)		(2)	(100)
Net Income	$ 41	$ 32	28	$ 128	$ 92	39

The changes in the components of Net Income for the periods ended June 30, 2011 and 2010 were due to the following factors as provided in the table below.

	Three Months	Six Months
Margin	$ 31	$ 87
Other revenue		(1)
Other operation and maintenance	(20)	(37)
Depreciation	(14)	(24)
Taxes, other than income	(2)	(4)
Other income (expense) - net	14	13
Interest Expense	10	20
Income Taxes	(9)	(20)
Special item	(1)	2
Total	$ 9	$ 36

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.

- Higher other operation and maintenance expense was primarily due to higher boiler and burner maintenance costs, increased scope of scheduled outages and E.W. Brown Flue Gas Desulfurization expenses totaling $11 million and $19 million for the three and six-month periods.

- Higher depreciation was primarily due to E.W. Brown Flue Gas Desulfurization equipment placed in-service in June 2010, resulting in a $4 million and $7 million increase for the three and six-month periods. In addition, TC2 commenced dispatch in January 2011, resulting in a further increase of $7 million and $15 million for the three and six-month periods.

- Higher other income (expense) – net was due to decreases in derivative losses of $10 million and $11 million for the three and six-month periods.

- Lower interest expense of $6 million and $10 million for the three and six-month periods was due to decreases in interest rates and decreases of $7 million and $14 million for the three and six-month periods were due to lower debt balances.

- Higher pre-tax book income resulted in higher income taxes of $7 million and $21 million for the three and six-month periods.

Management considers a terminated lease with "The Big Rivers Electric Corporation" (BREC) to be a special item. The after-tax amounts for BREC's terminated lease were $1 million (income) and $2 million (loss), for the three and six-months ended June 30, 2010. This item is reported in "Income (loss) from discontinued operations" in the Condensed Statements of Income. See LKE's 2011 Registration Statement for information about the terminated lease.

Outlook

Excluding special items, in 2011 compared with 2010, LKE expects higher retail revenues and lower financing costs due to lower debt balances resulting from an equity contribution provided by PPL at acquisition and the issuance in late 2010 of first mortgage bonds that LKE used to repay higher cost debt, partially offset by higher depreciation. Retail revenues are expected to increase as a result of the Kentucky rate cases and recoveries associated with environmental investments. Depreciation is expected to increase due to commencing dispatch of TC2 in January 2011, to serve customer demand.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Business," and "Risk Factors" in LKE's 2011 Registration Statement for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margin

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margin." Margin is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margin is a single financial performance measure of LKE's electricity generation, transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expenses and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. As a result, this measure represents the net revenues from LKE's operations. LKE believes that "Margin" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management to manage LKE's operations and analyze actual results compared to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margin" as defined by LKE for the periods ended June 30.

	2011 Three Months - Successor			2010 Three Months - Predecessor		
	Margin	Other (a)	Operating Income (b)	Margin	Other (a)	Operating Income (b)
Operating Revenues	$ 639	$ (1)	$ 638	$ 604	$ (1)	$ 603
Operating Expenses						
Fuel	206		206	209		209
Energy purchases	40		40	40		40
Other operation and maintenance	21	177	198	15	157	172
Depreciation	12	72	84	11	58	69
Taxes, other than income		9	9		7	7
Total Operating Expenses	279	258	537	275	222	497
Total	$ 360	$ (259)	$ 101	$ 329	$ (223)	$ 106

	2011 Six Months - Successor			2010 Six Months - Predecessor		
	Margin	Other (a)	Operating Income (b)	Margin	Other (a)	Operating Income (b)
Operating Revenues	$ 1,404		$ 1,404	$ 1,315	$ 1	$ 1,316
Operating Expenses						
Fuel	421		421	418		418
Energy purchases	147		147	161		161
Other operation and maintenance	41	$ 338	379	31	301	332
Depreciation	24	141	165	21	117	138
Taxes, other than income		18	18		14	14
Total Operating Expenses	633	497	1,130	631	432	1,063
Total	$ 771	$ (497)	$ 274	$ 684	$ (431)	$ 253

(a) Represents amounts that are excluded from Margin.
(b) As reported on the Condensed Consolidated Statements of Income.

Changes in Non-GAAP Financial Measures

Margins were higher by $31 million and $87 million during the three and six months ended June 30, 2011, compared with the same periods in 2010. The positive impact mainly resulted from a rate increase, which became effective August 1, 2010, partially offset by lower volumes. The rate increase had a $33 million and $88 million impact on the three and six-month periods. Lower volumes resulted from a 20% decrease in total cooling degree days for the three-month period. Volumes for the six-month period were lower due to a 19% decrease in cooling degree days and a 7% decrease in heating degrees days.

Other Operation and Maintenance

Changes in other operation and maintenance expense for the periods ended June 30, 2011, compared with 2010 were due to:

	Three Months	Six Months
Steam maintenance (a)	$ 8	$ 11
PPL support charges	4	9
Steam operations (b)	3	8
Distribution maintenance (c)	6	4
Fuel for generation (d)	3	6
Other	2	9
Total	$ 26	$ 47

(a) Primarily due to higher boiler and burner maintenance costs along with increased scope of scheduled outages.
(b) Primarily due to E.W. Brown Flue Gas Desulfurization equipment not being placed in-service until June 2010, coupled with increases in scrubber reactant expenses and other consumables.
(c) The six months ended June 30, 2011 was impacted by $6 million of 2009 storm restoration expenses being moved to a regulatory asset in 2011, as these costs will be recovered in rates, partially offset by amortization of other storm restoration related costs and a Hazardous Tree removal project initiated in August 2010, both of which impacted the three month period.
(d) Fuel handling costs are included in Fuel for electric generation on the Condensed Consolidated Statements of Income for the three and six-month periods ended June 30, 2010, and are in Other operation and maintenance expenses on the Condensed Consolidated Statements of Income for the for the three and the six-month periods ended June 30, 2011.

Depreciation

Changes in Depreciation for the three and six months ended June 30, 2011, compared with the same periods in 2010, were due to the following.

	Three Months	**Six Months**
TC2 (dispatch began in January 2011)	$ 7	$ 15
E.W. Brown Flue Gas Desulfurization equipment (placed in-service in June 2010)	4	7
Other	4	5
Total	$ 15	$ 27

Other Income (Expense) - net

Other income and expense increased by $14 million and $13 million for the three and six months ended June 30, 2011, compared with the same periods in 2010. The increases were primarily the result of decreases in derivative losses.

Interest Expense

Changes in interest expense for the periods ended June 30, 2011, compared with 2010 were due to:

	Three Months	**Six Months**
Interest rates (a)	$ (6)	$ (10)
Debt balances (b)	(7)	(14)
Other	3	4
Total	$ (10)	$ (20)

(a) Interest rates on the first mortgage bonds and senior notes were lower than the rates on the loans from Fidelia Corporation and other E.ON AG affiliates, which were replaced.
(b) LKE's debt balance was $1.4 billion lower as of June 30, 2011 compared to June 30, 2010, primarily due to an equity contribution from PPL of $ 1.6 billion at the time of acquisition.

Income Taxes

Changes in income taxes for the periods ended June 30, 2011, compared with 2010 were due to:

	Three Months	**Six Months**
Higher pre-tax book income	$ 7	$ 21
Other	2	(1)
Total	$ 9	$ 20

Financial Condition

Liquidity and Capital Resources

LKE had the following at:

	June 30, 2011	December 31, 2010
Cash and cash equivalents	$ 56	$ 11
Short-term investments (a)		163
	$ 56	$ 174
Short-term debt (b)		$ 163

(a) Represents tax-exempt bonds issued by Louisville/Jefferson County, Kentucky, on behalf of LG&E that were subsequently purchased by LG&E. Such bonds were remarketed to unaffiliated investors in January 2011. See Note 7 to the Financial Statements for additional information.
(b) Represents borrowings under LG&E's $400 million syndicated credit facility. See Note 7 to the Financial Statements for additional information.

The $45 million increase in LKE's cash and cash equivalents position was primarily the net result of:

- cash provided by operating activities of $401 million;
- a net increase in loans to affiliates of $29 million;
- capital expenditures of $174 million; and
- $146 million of distributions to PPL.

LKE's cash provided by operating activities increased by $193 million for the six months ended June 30, 2011, compared with the same period in 2010, primarily due to:

- an increase in net income of $36 million adjusted for depreciation of $27 million, deferred income taxes and investment tax credits of $98 million and other noncash items of $8 million, partially offset by defined benefit plans - expense of $12 million and unrealized (gains) losses on derivatives of $15 million;
- a net decrease in working capital from accounts receivable, accounts payable and unbilled revenue of $66 million due to the timing of cash receipts and payments and milder weather (fewer cooling degree days) in June 2011 as compared with June 2010;
- a decrease in fuel of $32 million, which was driven by higher volumes purchased in 2010 in preparation for the commercial operation of TC2 originally expected in mid-2010 along with an increase in fuel consumption due to the dispatch of TC2 beginning in January 2011; and
- a decrease in income tax receivable of $40 million for 2011 due to receipt of the 2010 tax settlement, offset by an increase in income tax receivable for 2010 of $10 million due primarily to recording the benefits of a change in an income tax accounting method approved in 2010; partially offset by
- an increase in discretionary defined benefit plan contributions of $106 million made in order to achieve LKE's long-term funding requirements.

Credit Facilities

At June 30, 2011, LKE's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
LKE Credit Facility with a subsidiary of PPL Energy Supply	$ 300			$ 300
LG&E Credit Facility (a)	400			400
KU Credit Facilities (a) (b)	598		$ 198	400
Total Credit Facilities (c)	$ 1,298		$ 198	$ 1,100

(a) In June 2011, LG&E and KU each amended its respective Syndicated Credit Facility such that the fees and the spread to benchmark interest rates for borrowings depend upon the respective company's senior secured long-term debt rating rather than the senior unsecured debt rating.
(b) In April 2011, KU entered into a new $198 million letter of credit facility that has been used to issue letters of credit to support outstanding tax exempt bonds. The facility matures in April 2014. In August 2011, KU amended its letter of credit facility such that the fees depend upon KU's senior secured long-term debt rating rather than the senior unsecured debt rating.
(c) Total borrowings outstanding under LKE's credit facilities decreased on a net basis by $163 million since December 31, 2010.

The commitments under LKE's credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 9% of the total committed capacity; however, the PPL affiliate provides a commitment of approximately 23% of the total facilities listed above.

See Note 7 to the Financial Statements for further discussion of LKE's credit facilities.

Long-term Debt Securities

In January 2011, LG&E remarketed $163 million of variable rate tax-exempt revenue bonds, which were issued on its behalf by Louisville/Jefferson County, Kentucky, to unaffiliated investors in a term rate mode, bearing interest at 1.90% into 2012. The proceeds from the remarketing were used to repay a $163 million borrowing under LG&E's syndicated credit facility.

At June 30, 2011, LKE's tax-exempt revenue bonds that are in the form of auction rate securities and total $231 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the six months ended June 30, 2011, the weighted-average rate on LG&E's and KU's auction rate bonds in total was 0.31%.

LKE's long-term debt securities activity since June 30, 2011 was:

	Debt	
	Issuances	Retirement
Non-cash Exchanges (a)		
LKE Senior Unsecured Notes	875	(875)
LG&E First Mortgage Bonds	535	(535)
KU First Mortgage Bonds	1,500	(1,500)
Total Exchanged	$ 2,910	$ (2,910)

(a) In April 2011, LKE, LG&E and KU each filed a 2011 Registration Statement with the SEC related to offers to exchange securities issued in November 2010 in transactions not registered under the Securities Act of 1933 with similar but registered securities. The 2011 Registration Statements became effective in June 2011 and the exchanges were completed in July 2011, with substantially all securities being exchanged.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of LKE and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of LKE and its subsidiaries are based on information provided by LKE and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of LKE or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in LKE's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets.

In LKE's 2011 Registration Statement, LKE described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, LKE is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to LKE's ratings, but without stating what ratings have been assigned to LKE or its subsidiaries, or their securities. The ratings assigned by the rating agencies to LKE and its subsidiaries and their respective securities may be found, without charge, on each of the respective ratings agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of PPL's then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

- Moody's affirmed all of the ratings for LKE and all of its rated subsidiaries;
- S&P revised the outlook for LKE, LG&E and KU and lowered the issuer and senior unsecured ratings of LKE and the issuer, senior secured and short-term ratings of LG&E and KU; and
- Fitch affirmed all of the ratings for LKE and all of its rated subsidiaries.

In April 2011, S&P took the following actions following the completion of PPL's acquisition of WPD Midlands:

- revised the outlook for LKE and all of its rated subsidiaries;
- raised the short-term ratings of LG&E and KU; and
- affirmed all of the long-term ratings for LKE and its rated subsidiaries.

In May 2011, S&P downgraded the long-term rating of four series of pollution control bonds issued on behalf of KU by one notch in connection with the substitution of the letters of credit enhancing these four bonds.

Ratings Triggers

LKE and its subsidiaries have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, commodity transportation and storage and interest rate instruments, which contain provisions requiring LKE and its subsidiaries to post additional collateral, or permitting the counterparty to terminate the contract, if LKE's or the subsidiaries' credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at June 30, 2011. At June 30, 2011, if LKE's or its subsidiaries' credit ratings had been below investment grade, the maximum amount that LKE would have been required to post as additional collateral to counterparties was $126 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations and interest rate contracts.

Capital Expenditures

The table below shows LKE's capital expenditure projections at June 30, 2011.

	Projected				
	2011	2012	2013	2014	2015
Construction expenditures (a)					
Generating facilities	$ 153	$ 128	$ 155	$ 158	$ 126
Transmission and distribution facilities	249	266	303	289	294
Environmental (b)	182	711	1,140	1,065	824
Other	35	52	48	42	67
Total Construction Expenditures	$ 619	$ 1,157	$ 1,646	$ 1,554	$ 1,311

(a) Construction expenditures include AFUDC, which is not expected to be significant for the years 2011 through 2015.
(b) Includes $709 million of currently estimable costs related to replacement generation units due to EPA regulations not recoverable through the ECR mechanism. LKE expects to recover these costs over a period equivalent to the related depreciable lives of the assets through base rates established by future rate cases.

LKE's capital expenditure projections for the years 2011 through 2015 total approximately $6.3 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes current estimates for LKE's environmental projects related to new and anticipated EPA compliance standards. Actual costs may be significantly lower or higher depending on the final requirements. Certain environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism.

For additional information, see "Liquidity and Capital Resources" in LKE's 2011 Registration Statement.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about LKE's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk

LG&E's and KU's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E and KU are subject to commodity price risk for only a small portion of on-going business operations. LKE conducts energy trading and risk management activities to maximize the value of the physical assets at times when the assets are not required to serve LG&E's and KU's customers, and LKE manages energy commodity risk using derivative instruments, including swaps and forward contracts.

The balance and change in net fair value of LKE's commodity derivative contracts for the three and six months ended June 30, 2011 and 2010 were not significant. See Note 14 to the Financial Statements for additional information.

Interest Rate Risk

LKE and its subsidiaries have issued debt to finance their operations, which exposes them to interest rate risk. LKE utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under PPL's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of LKE's debt portfolio due to changes in the absolute level of interest rates.

At June 30, 2011, LKE's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

LKE is also exposed to changes in the fair value of its debt portfolio. LKE estimated that a 10% decrease in interest rates at June 30, 2011, would increase the fair value of its debt portfolio by $118 million.

At June 30, 2011, LKE had the following interest rate hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates
Economic hedges			
Interest rate swaps (b)	$ 179	$ (36)	$ (5)

(a) Includes accrued interest.
(b) LKE utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While LKE is exposed to changes in the fair value of these instruments, any changes in the fair value of such economic hedges are recorded in regulatory assets and liabilities. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in interest rates.

Credit Risk

LKE is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. LKE maintains credit policies and procedures to limit counterparty credit risk including evaluating credit ratings and financial information along with having certain counterparties post margin if the credit exposure exceeds certain thresholds.
LKE is exposed to potential losses as a result of nonpayment by customers. LKE maintains an allowance for doubtful accounts primarily composed of accounts aged more than four months. Accounts are written off as management determines them uncollectible.

Certain of LKE's derivative instruments contain provisions that require it to provide immediate and on-going collateralization of derivative instruments in net liability positions based upon LKE's credit ratings from each of the major credit rating agencies. See Notes 13 and 14 to the Financial Statements for information regarding exposure and the risk management activities.

Related Party Transactions

LKE is not aware of any material ownership interest or operating responsibility by senior management of LKE, LG&E or KU in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with LKE. See Note 11 to the Financial Statements for additional information on related party transactions between LKE and affiliates.

Environmental Matters

Protection of the environment is a major priority for LKE and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to LKE's air emissions, water discharges and the management of hazardous and solid waste, among other areas, and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc.; and may impact the costs for their products or their demand for LKE's services. See "Business – Environmental Matters" in LKE's 2011 Registration Statement and Note 10 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Note 18 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: price risk management, regulatory mechanisms, defined benefits, asset impairment, loss accruals, AROs, income taxes, regulatory assets and liabilities and business combinations - purchase price allocation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," in LKE's 2011 Registration Statement for a discussion of each critical accounting policy.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with LG&E's Condensed Financial Statements and the accompanying Notes and with LG&E's 2011 Registration Statement. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides an overview of LG&E's business strategy, financial and operational highlights, and key regulatory matters.
- "Results of Operations" provides a summary of LG&E's earnings and a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on LG&E's Condensed Statements of Income, comparing the three and six months ended June 30, 2011 with the same periods in 2010.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of LG&E's liquidity position and credit profile. This section also includes a discussion of rating agency decisions and capital expenditure projections.
- "Financial Condition - Risk Management" provides an explanation of LG&E's risk management programs relating to market and credit risk.

Overview

Introduction

LG&E, headquartered in Louisville, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy and distribution and sale of natural gas in Kentucky.

Successor and Predecessor Financial Presentation

LG&E's Condensed Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010, and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, which are discussed in the Financial Statements in LG&E's 2011 Registration Statement. The cost basis of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor periods are not comparable to the Predecessor periods; however, the core operations of LG&E have not changed as a result of the acquisition.

Business Strategy

LG&E's overall strategy is to provide reliable, safe and competitively priced energy to its customers.

Financial and Operational Highlights

<u>Net Income</u>

Net Income for the three and six months ended June 30, 2011 was $20 million and $59 million compared to $14 million and $47 million for the same periods in 2010, representing increases of 43% and 26%. These increases reflect the following after-tax impacts:

	Three Months	Six Months
Operating revenue increases as a result of increased rates, which became effective August 1, 2010	$ 11	$ 31
Higher other operation and maintenance expense resulting from higher distribution, administration and general costs	(5)	(10)
Higher depreciation primarily due to TC2	(1)	(2)
Other	1	(7)
	$ 6	$ 12

See "Results of Operations" below for further discussion and analysis of the results of operations.

Trimble County Unit 2 Construction

LG&E and KU constructed a 760 MW capacity base-load, coal fired unit, TC2, which is jointly owned by LG&E (14.25%) and KU (60.75%), together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency (combined 25%). With limited exceptions LG&E and KU took care, custody and control of TC2 in January 2011. LG&E and KU and the contractor have agreed to certain amendments to the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. A number of remaining issues regarding these matters are still under discussion with the contractors. See Note 10 to the Financial Statements for additional information.

Registration of Debt by LG&E

In April 2011, LG&E filed a Registration Statement with the SEC, as agreed to in a registration rights agreement entered into in connection with the issuances of first mortgage bonds in November 2010 in transactions not registered under the Securities Act of 1933. The 2011 Registration Statement relates to an offer to exchange the first mortgage bonds issued in November 2010 with similar but registered securities. The 2011 Registration Statement became effective in June 2011, and the exchange was completed in July 2011, with all of the first mortgage bonds being exchanged. See Note 7 to the Financial Statements and LG&E's 2011 Registration Statement for additional information.

Regulatory Matters

Federal

Cross State Air Pollution Rule

In July 2011, the EPA signed the CSAPR which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. This rule applies to the Kentucky plants. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions. LG&E's initial review of the allocations under the CSAPR indicates that greater reductions in sulfur dioxide emissions will be required beginning in 2012 under the CSAPR than were required under the CAIR starting in 2015. For the initial phase of the rule beginning in 2012, sulfur dioxide allowance allocations are expected to meet the forecasted emissions based on present operations of existing scrubbers and coal supply. However, by the second phase beginning in 2014, LG&E will likely have to take additional measures with regards to the operation and dispatch of its generating fleet, including upgrades or installation of new scrubbers for some generating units or retirement of certain other units. With respect to nitrogen oxide emissions, the CSAPR allocates a slightly lower amount of allowances compared to those under the CAIR. With uncertainty surrounding the trading program, other compliance options are being analyzed for LG&E's fleet, such as installation of new technology, the retirement of certain units and modification of plant operations. LG&E is seeking recovery of its expected costs to comply with the CSAPR and certain other EPA requirements through the ECR plan filed with the KPSC in June, 2011. Additionally, LG&E's plants may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. LG&E anticipates that some of the measures required for compliance with CSAPR such as upgraded or new scrubbers at some of its plants and retirement of certain units may also be necessary to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the economic impact to LG&E could be significant. See Notes 6 and 10 to the Financial Statements for additional information on the CSAPR and the regulatory proceeding.

Kentucky

Integrated Resource Plan (IRP) Filing

LG&E and KU filed their joint IRP with the KPSC in April 2011. This plan is provided to the KPSC every three years and is intended to give the KPSC a point-in-time look at LG&E's and KU's expectations of future resource needs. It does not represent a commitment or decision by LG&E or KU, nor does it represent a request for approval.

Impending environmental regulation including the CSPAR, Ambient Air Quality Standards, the Maximum Achievable Control Technology Rule, the Coal Combustion Residuals Rule and the Cooling Water Intake Rule could result in the retirements of older, smaller coal-fired units and therefore the IRP assumes potential retirements of coal-fired capacity and replacement by combined-cycle gas units. In addition, the IRP assumes peak demand reductions through existing or expanded DSM or energy efficiency programs. See Notes 6 and 10 to the Financial Statements for additional information.

ECR Filing – Environmental Upgrades

In June 2011, in order to achieve compliance with new and pending mandated federal EPA regulations, LG&E filed an ECR plan with the KPSC requesting approval to install environmental upgrades for certain of its coal-fired plants along with the recovery of the expected $1.4 billion in costs. The ECR plan details many upgrades that will be made to certain of its coal-fired generating stations to continue to be compliant with EPA regulations.

Results of Operations

As previously noted, LG&E's results for the three and six months ended June 30, 2011 are on a basis of accounting different from its results for the three and six months ended June 30, 2010. When discussing LG&E's results of operations for 2011 compared with 2010, material differences resulting from the different bases of accounting will be isolated for purposes of comparability. See "Overview - Successor and Predecessor Financial Presentation" for further information.

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future operating results. Due to weather, revenue and earnings are generally highest during the first and third quarters and lowest in the second quarter.

Earnings

Net Income for the periods ended June 30 was:

	Three Months			Six Months		
	2011 Successor	2010 Predecessor	% Change	2011 Successor	2010 Predecessor	% Change
Operating Revenues	$ 297	$ 279	6	$ 695	$ 645	8
Fuel	82	90	(9)	167	173	(3)
Energy purchases	39	25	56	149	123	21
Other operation and maintenance	91	82	11	181	165	10
Depreciation	37	35	6	73	69	6
Taxes, other than income	5	4	25	9	8	13
Total Operating Expenses	254	236	8	579	538	8
Other income (expense) – net	1	(10)	(110)		(12)	(100)
Interest Expense	12	12		23	23	
Income Taxes	12	7	71	34	25	36
Net Income	$ 20	$ 14	43	$ 59	$ 47	26

The changes in the components of Net Income for the periods ended June 30, 2011 and 2010 were due to the following factors as provided in the table below.

	Three Months	Six Months
Margin	$ 13	$ 33
Other revenue		(1)
Other operation and maintenance	(9)	(14)
Depreciation	(3)	(8)
Taxes, other than income	(1)	(1)
Other income (expense) – net	11	12
Income Taxes	(5)	(9)
Total	$ 6	$ 12

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.

- Higher other operation and maintenance expense was primarily due to higher distribution maintenance costs and the result of amortization of storm restoration related costs together with a Hazardous Tree removal project initiated in August 2010 of $4 million and $6 million for the three and six-month periods.

- Higher other income (expense) – net decreases was due to derivative losses of $10 million and $11 million for the three and six-month periods.

- Higher pre-tax book income resulted in higher income taxes of $4 million and $8 million for the three and six-month periods.

Outlook

LG&E expects higher retail revenues and lower financing costs in 2011 compared to 2010 due to the issuance in late 2010 of first mortgage bonds that LG&E used to repay higher cost debt, offset by lower other income and higher depreciation. Retail revenues are expected to increase as a result of the Kentucky rate case. The reduction in other income is the result of the recognition of a regulatory asset associated with the interest rate swaps in 2010, while higher depreciation is projected due to commencing dispatch of TC2 in January 2011.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Business," and "Risk Factors" in LG&E's 2011 Registration Statement for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margin

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margin." Margin is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margin is a single financial performance measure of LG&E's operations. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expenses and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. As a result, this measure represents the net revenues from LG&E's operations. LG&E believes that "Margin" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margin" as defined by LG&E for the periods ended June 30.

	2011 Three Months – Successor			2010 Three Months – Predecessor		
	Margin	Other (a)	Operating Income (b)	Margin	Other (a)	Operating Income (b)
Operating Revenue	$ 297		$ 297	$ 279		$ 279
Operating Expenses						
Fuel	82		82	90		90
Energy purchases	39		39	25		25
Other operation and maintenance	8	$ 83	91	8	$ 74	82
Depreciation	1	36	37	2	33	35
Taxes, other than income		5	5		4	4
Total Operating Expenses	130	124	254	125	111	236
Total	$ 167	$ (124)	$ 43	$ 154	$ (111)	$ 43

	2011 Six Months – Successor			2010 Six Months – Predecessor		
	Margin	Other (a)	Operating Income (b)	Margin	Other (a)	Operating Income (b)
Operating Revenue	$ 695		$ 695	$ 644	$ 1	$ 645
Operating Expenses						
Fuel	167		167	173		173
Energy purchases	149		149	123		123
Other operation and maintenance	19	$ 162	181	17	148	165
Depreciation	1	72	73	5	64	69
Taxes, other than income		9	9		8	8
Total Operating Expenses	336	243	579	318	220	538
Total	$ 359	$ (243)	$ 116	$ 326	$ (219)	$ 107

(a) Represents amounts that are excluded from Margin.
(b) As reported on the Condensed Statements of Income.

Changes in Non-GAAP Financial Measures

Margins were higher by $13 million and $33 million during the three and six months ended June 30, 2011, compared with the same periods in 2010. The positive impact mainly resulted from a rate increase, which became effective August 1, 2010, partially offset by lower volumes. The rate increase had a $13 million and $32 million impact on the three and six-month periods. Lower volumes resulted from an 18% decrease in total cooling degree days for the three-month period. Volumes for the six-month period were lower due to a 16% decrease in cooling degree days and an 8% decrease in heating degrees days.

Other Operation and Maintenance

Changes in other operation and maintenance expense for the periods ended June 30, 2011, compared with 2010 were due to:

	Three Months	Six Months
Distribution maintenance (a)	$ 4	$ 6
Administrative and general	2	5
Fuel for generation (b)	1	3
Steam		(1)
Other	2	3
Total	$ 9	$ 16

(a) The three and six-month periods increased because of amortization of storm restoration related costs along with a Hazardous Tree removal project initiated in August 2010.
(b) Fuel handling costs are included in Fuel for electric generation on the Condensed Statements of Income for the three and six-month periods ended June 30, 2010, and are in Other operation and maintenance expenses on the Condensed Statements of Income for the for the three and the six-month periods ended June 30, 2011.

Depreciation

Depreciation increased by $2 million and $4 million for the three and six months ended June 30, 2011, compared with the same periods in 2010. The increase was primarily due to commencing dispatch of TC2 to serve customer demands beginning in January 2011.

Other Income (Expense) - net

Other income and expense increased by $11 million and $12 million for the three and six months ended June 30, 2011, compared with the same periods in 2010. The increases were primarily the result of decreases in derivative losses.

Income Taxes

Changes in income taxes for the periods ended June 30, 2011, compared with 2010 were due to:

	Three Months	Six Months
Higher pre-tax book income	$ 4	$ 8
Other	1	1
Total	$ 5	$ 9

Financial Condition

Liquidity and Capital Resources

LG&E had the following at:

	June 30, 2011	December 31, 2010
Cash and cash equivalents	$ 41	$ 2
Short-term investments (a)		163
	$ 41	$ 165
Short-term debt (b)		$ 163

(a) Represents tax-exempt bonds issued by Louisville/Jefferson County, Kentucky, on behalf of LG&E that were subsequently purchased by LG&E. Such bonds were remarketed to unaffiliated investors in January 2011. See Note 7 to the Financial Statements for additional information.
(b) Represents borrowings under LG&E's $400 million syndicated credit facility. See Note 7 to the Financial Statements for additional information.

The $39 million increase in LG&E's cash and cash equivalents position was primarily the net result of:

- $175 million of cash provided by operating activities;
- $77 million of capital expenditures; and
- $42 million of common stock dividends.

LG&E's cash provided by operating activities increased by $91 million for the six months ended June 30, 2011, compared with the same period in 2010, primarily due to:

- an increase in net income of $12 million adjusted for depreciation of $4 million, defined benefit plans - expense of $6 million, deferred income taxes and investment tax credits of $9 million and other noncash items of $6 million, partially offset by unrealized (gains) losses on derivatives of $15 million;
- a net decrease in working capital from accounts receivable, accounts payable and unbilled revenue of $47 million due to the timing of cash receipts and payments and milder weather (fewer cooling degree days) in June 2011 as compared with June 2010;
- a decrease in fuel of $11 million, which was driven by higher volumes in 2010 in preparation for the commercial operation of TC2 originally expected in mid-2010;
- an increase in income tax receivable of $12 million in 2010 due to recording the benefits of a change in an income tax accounting method approved in 2010;
- a decrease in cash refunded to customers of $22 million due to prior period over recoveries related to the gas supply clause filings in 2009; and
- a decrease in accrued taxes of $15 million in 2010 due to payments made in 2010 for 2009 tax liabilities; partially offset by
- an increase in discretionary defined benefit plan contributions of $44 million made in order to achieve LG&E's long-term funding requirements.

Credit Facilities

At June 30, 2011, LG&E's committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
Syndicated Credit Facility (a)	$ 400			$ 400

(a) In June 2011, LG&E amended its Syndicated Credit Facility such that the fees and the spread to benchmark interest rates for borrowings depend upon LG&E's senior secured long-term debt rating rather than the senior unsecured debt rating. Total borrowings outstanding under this facility decreased on a net basis by $163 million since December 31, 2010.

The commitments under LG&E's Syndicated Credit Facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 6% of the total committed capacity available to LG&E.

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to $400 million at market-based rates (based on highly-rated commercial paper issues). At June 30, 2011, there was no balance outstanding. At December 31, 2010, $12 million was outstanding. The interest rate for the period ended December 31, 2010 was 0.25%.

See Note 7 to the Financial Statements for further discussion of LG&E's credit facilities.

Long-term Debt Securities

In January 2011, LG&E remarketed $163 million of variable rate tax-exempt revenue bonds, which were issued on its behalf by Louisville/Jefferson County, Kentucky, to unaffiliated investors in a term rate mode, bearing interest at 1.90% into 2012. The proceeds from the remarketing were used to repay a $163 million borrowing under LG&E's syndicated credit facility.

At June 30, 2011, LG&E's tax-exempt revenue bonds that are in the form of auction rate securities and total $135 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the six months ended June 30, 2011, the weighted-average rate on LG&E's auction rate bonds in total was 0.31%.

Since June 30, 2011, there have been $535 million of issuances and $535 of million retirements of LG&E's First Mortgage Bonds related to the non-cash exchange of bonds. In April 2011, LG&E filed a 2011 Registration Statement with the SEC related to offers to exchange securities issued in November 2010 in transactions not registered under the Securities Act of 1933 with similar but registered securities. The 2011 Registration Statement became effective in June 2011 and the exchanges were completed in July 2011, with all securities being exchanged.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of LG&E. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of LG&E are based on information provided by LG&E and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of LG&E. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in LG&E's credit ratings could result in higher borrowing costs and reduced access to capital markets.

In LG&E's 2011 Registration Statement, LG&E described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, LG&E is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to LG&E's ratings, but without stating what ratings have been assigned to LG&E's securities. The ratings assigned by the rating agencies to LG&E and its securities may be found, without charge, on each of the respective ratings agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of PPL's then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

- Moody's affirmed the ratings for LG&E;
- S&P revised the outlook for LG&E and lowered the issuer, senior secured and short-term ratings of LG&E; and
- Fitch affirmed the ratings for LG&E.

In April 2011, S&P took the following actions following the completion of PPL's acquisition of WPD Midlands:

- revised the outlook for LG&E;
- raised the short-term ratings of LG&E; and
- affirmed the long-term ratings for LG&E.

Ratings Triggers

LG&E has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, commodity transportation and storage and interest rate instruments, which contain provisions requiring LG&E to post additional collateral, or permitting the counterparty to terminate the contract, if LG&E's credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at June 30, 2011. At June 30, 2011, if LG&E's credit ratings had been below investment grade, the maximum amount that LG&E would have been required to post as additional collateral to counterparties was $117 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations and interest rate contracts.

Capital Expenditures

The table below shows LG&E's capital expenditure projections at June 30, 2011.

	Projected				
	2011	2012	2013	2014	2015
Construction expenditures					
Generating facilities	$ 76	$ 56	$ 95	$ 97	$ 47
Transmission and distribution facilities	132	147	153	146	155
Environmental (a)	30	304	668	683	457
Other	10	26	25	21	34
Total Construction Expenditures	$ 248	$ 533	$ 941	$ 947	$ 693

(a) Includes $566 million of currently estimable costs related to replacement generation units due to EPA regulations not recoverable through the ECR mechanism. LG&E expects to recover these costs over a period equivalent to the related depreciable lives of the assets through base rates established by future rate cases.

LG&E's capital expenditure projections for the years 2011 through 2015 total approximately $3.4 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes current estimates for LG&E's environmental projects related to new and anticipated EPA compliance standards. Actual costs may be significantly lower or higher depending on the final requirements. Certain environmental compliance costs incurred by LG&E in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism.

For additional information, see "Liquidity and Capital Resources" in LG&E's 2011 Registration Statement.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about LG&E's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk

LG&E's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E is subject to commodity price risk for only a small portion of on-going business operations. LG&E conducts energy trading and risk management activities to maximize the value of the physical assets at times when the assets are not required to serve its customers, and LG&E manages energy commodity risk using derivative instruments, including swaps and forward contracts.

The balance and change in net fair value of LG&E's commodity derivative contracts for the three and six months ended June 30, 2011 and 2010 were not significant. See Note 14 to the Financial Statements for additional information.

Interest Rate Risk

LG&E has issued debt to finance its operations, which exposes it to interest rate risk. LG&E utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under PPL's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of LG&E's debt portfolio due to changes in the absolute level of interest rates.

At June 30, 2011, LG&E's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

LG&E is also exposed to changes in the fair value of its debt portfolio. LG&E estimated that a 10% decrease in interest rates at June 30, 2011, would increase the fair value of its debt portfolio by $27 million.

At June 30, 2011, LG&E had the following interest rate hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates
Economic hedges			
Interest rate swaps (b)	$ 179	$ (36)	$ (5)

(a) Includes accrued interest.
(b) LG&E utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt. While LG&E is exposed to changes in the fair value of these instruments, any changes in the fair value of such economic hedges are recorded in regulatory assets and liabilities. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in interest rates.

Credit Risk

LG&E is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. LG&E maintains credit policies and procedures to limit counterparty credit risk including evaluating credit ratings and financial information along with having certain counterparties post margin if the credit exposure exceeds certain thresholds.
LG&E is exposed to potential losses as a result of nonpayment by customers. LG&E maintains an allowance for doubtful accounts primarily composed of accounts aged more than four months. Accounts are written off as management determines them uncollectible.

Certain of LG&E's derivative instruments contain provisions that require it to provide immediate and on-going collateralization of derivative instruments in net liability positions based upon LG&E's credit ratings from each of the major credit rating agencies. See Notes 13 and 14 to the Financial Statements for information regarding exposure and the risk management activities.

Related Party Transactions

LG&E is not aware of any material ownership interest or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with LG&E. See Note 11 to the Financial Statements for additional information on related party transactions between LG&E and affiliates.

Environmental Matters

Protection of the environment is a major priority for LG&E and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to LG&E's air emissions, water discharges and the management of hazardous and solid waste, among other areas, and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc.; and may impact the costs for their products or their demand for LG&E's services. See "Business – Environmental Matters" in LG&E's 2011 Registration Statement and Note 10 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Note 18 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: price risk management, regulatory mechanisms, defined benefits, asset impairment, loss accruals, AROs, income taxes, regulatory assets and liabilities and business combinations - purchase price allocation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," in LG&E's 2011 Registration Statement for a discussion of each critical accounting policy.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with KU's Condensed Financial Statements and the accompanying Notes and with KU's 2011 Registration Statement. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides an overview of KU's business strategy, financial and operational highlights, and key regulatory matters.

- "Results of Operations" provides a summary of KU's earnings and a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on KU's Statements of Income, comparing the three and six months ended June 30, 2011 with the same periods in 2010.

- "Financial Condition – Liquidity and Capital Resources" provides an analysis of KU's liquidity position and credit profile. This section also includes a discussion of rating agency decisions and capital expenditure projections.

- "Financial Condition - Risk Management" provides an explanation of KU's risk management programs relating to market and credit risk.

Overview

Introduction

KU, headquartered in Lexington, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy, in Kentucky, Virginia and Tennessee.

Successor and Predecessor Financial Presentation

KU's Condensed Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010, and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, which are discussed in the Financial Statements in KU's 2011 Registration Statement. The cost basis of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor periods are not comparable to the Predecessor periods; however, the core operations of KU have not changed as a result of the acquisition.

Business Strategy

KU's overall strategy is to provide reliable, safe and competitively priced energy to its customers.

Financial and Operational Highlights

<u>Net Income</u>

Net income for the three and six months ended June 30, 2011 was $30 million and $88 million, compared to $31 million and $75 million for the same periods in 2010, representing a decrease of 3% and an increase of 17%. These changes reflect the following after-tax impacts:

	Three Months	Six Months
Operating revenue increases as a result of increased rates, which became effective August 1, 2010	$ 9	$ 25
Higher depreciation primarily due to TC2 and E.W. Brown Flue Gas Desulfurization equipment	(8)	(15)
Other	(2)	3
	$ (1)	$ 13

See "Results of Operations" below for further discussion and analysis of the results of operations.

Trimble County Unit 2 Construction

KU and LG&E constructed a 760 MW capacity base-load, coal fired unit, TC2, which is jointly owned by KU (60.75%) and LG&E (14.25%), together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency (combined 25%). With limited exceptions KU and LG&E took care, custody and control of TC2 in January 2011. KU and LG&E and the contractor have agreed to certain amendments to the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. A number of remaining issues regarding these matters are still under discussion with the contractors. See Note 10 to the Financial Statements for additional information.

Registration of Debt by KU

In April 2011, KU filed a Registration Statement with the SEC, as agreed to in a registration rights agreement entered into in connection with the issuances of first mortgage bonds in November 2010, in transactions not registered under the Securities Act of 1933. The 2011 Registration Statement relates to an offer to exchange the first mortgage bonds issued in November 2010, with similar but registered securities. The 2011 Registration Statement became effective in June 2011 and the exchange was completed in July 2011, with substantially all of the first mortgage bonds being exchanged. See Note 7 to the Financial Statements and KU's 2011 Registration Statement for additional information.

Regulatory Matters

Federal

Cross State Air Pollution Rule

In July 2011, the EPA signed the CSAPR which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. This rule applies to the Kentucky plants. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions. KU's initial review of the allocations under the CSAPR indicates that greater reductions in sulfur dioxide emissions will be required beginning in 2012 under the CSAPR than were required under the CAIR starting in 2015. For the initial phase of the rule beginning in 2012, sulfur dioxide allowance allocations are expected to meet the forecasted emissions based on present operations of existing scrubbers and coal supply. However, by the second phase beginning in 2014, KU will likely have to take additional measures with regards to the operation and dispatch of its generating fleet, including upgrades or installation of new scrubbers for some generating units or retirement of certain other units. With respect to nitrogen oxide emissions, the CSAPR allocates a slightly lower amount of allowances compared to those under the CAIR. With uncertainty surrounding the trading program, other compliance options are being analyzed for KU's fleet, such as installation of new technology, the retirement of certain units and modification of plant operations. KU is seeking recovery of its expected costs to comply with the CSAPR and certain other EPA requirements through the ECR plan filed with the KPSC in June, 2011. Additionally, KU's plants may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. KU anticipates that some of the measures required for compliance with CSAPR such as upgraded or new scrubbers at some of its plants and retirement of certain units may also be necessary to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the economic impact to KU could be significant. See Notes 6 and 10 to the Financial Statements for additional information on the CSAPR and the regulatory proceeding.

Kentucky and Virginia

Integrated Resource Plan (IRP) Filing

KU and LG&E filed their joint IRP with the KPSC in April, 2011. This plan is provided to the KPSC every three years and is intended to give the KPSC a point-in-time look at KU's and LG&E's expectations of future resource needs. It does not represent a commitment or decision by KU or LG&E, nor does it represent a request for approval.

Impending environmental regulation including the CSAPR, Ambient Air Quality Standards, the Maximum Achievable Control Technology Rule, the Coal Combustion Residuals Rule and the Cooling Water Intake Rule could result in the retirements of older, smaller coal-fired units and therefore the IRP assumes potential retirements of coal-fired capacity and replacement by combined-cycle gas units. In addition, the IRP assumes peak demand reductions through existing or expanded DSM or energy efficiency programs. See Notes 6 and 10 to the Financial Statements for additional information.

ECR Filing – Environmental Upgrades

In June 2011, in order to achieve compliance with new and pending mandated federal EPA regulations, KU filed an ECR plan with the KPSC requesting approval to install environmental upgrades for certain of its coal-fired plants along with the recovery of the expected $1.1 billion in costs. The ECR plan details many upgrades that will be made to certain of its coal-fired generating stations to continue to be compliant with EPA regulations. See Note 6 to the Financial Statements for additional information.

Virginia Rate Case

On April 1, 2011, KU filed an application with the VSCC requesting an annual increase in electric base rates for its Virginia jurisdictional customers of $9 million, or 14%. While KU cannot predict the amount of the allowed increase, it expects the new rates to go into effect in January 2012. See Note 6 to the Financial Statements for additional information.

Results of Operations

As previously noted, KU's results for the three and six months ended June 30, 2011 are on a basis of accounting different from its results for the three and six months ended June 30, 2010. When discussing KU's results of operations for 2011, compared with 2010, material differences resulting from the different bases of accounting will be isolated for purposes of comparability. See "Overview - Successor and Predecessor Financial Presentation" for further information.

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future operating results. Due to weather, revenue and earnings are generally highest during the first and third quarters and lowest in the second quarter.

Earnings

Net Income for the periods ended June 30 was:

	Three Months			Six Months		
	2011 Successor	2010 Predecessor	% Change	2011 Successor	2010 Predecessor	% Change
Operating Revenues	$ 365	$ 350	4	$ 771	$ 730	6
Fuel	124	119	4	254	245	4
Energy purchases	25	42	(40)	60	96	(38)
Other operation and maintenance	100	81	23	184	157	17
Depreciation	47	34	38	92	68	35
Taxes, other than income	4	3	33	9	6	50
Total Operating Expenses	300	279	8	599	572	5
Other Income (Expense) – net		(2)	(100)	1	1	
Interest Expense	17	20	(15)	35	40	(13)
Income Taxes	18	18		50	44	14
Net Income	$ 30	$ 31	(3)	$ 88	$ 75	17

The changes in the components of Net Income for the periods ended June 30, 2011 and 2010 were due to the following factors as provided in the table below.

	Three Months	Six Months
Margin	$ 19	$ 55
Other revenue	(1)	
Other operation and maintenance	(14)	(21)
Depreciation	(9)	(17)
Taxes, other than income	(1)	(3)
Other income (expense) – net	2	
Interest Expense	3	5
Income Taxes		(6)
Total	$ (1)	$ 13

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.

- Higher other operation and maintenance expense was primarily due to higher steam expenses, which resulted from higher boiler and burner maintenance costs, increased scope of scheduled outages and E.W. Brown Flue Gas Desulfurization expenses totaling $11 million and $20 million for the three and six-month periods.

- Higher depreciation was primarily due to E.W. Brown Flue Gas Desulfurization equipment placed in-service in June 2010, resulting in a $4 million and $7 million increase for the three and six-month periods. In addition, TC2 commenced dispatch in January 2011, resulting in a further increase of $5 million and $12 million for the three and six-month periods.

- Higher pre-tax book income resulted in higher income tax of $7 million for the six-month period.

Outlook

KU expects higher retail revenues and lower financing costs in 2011 compared to 2010 due the issuance in late 2010 of first mortgage bonds that KU used to repay higher cost debt, partially offset by higher depreciation. Retail revenues are expected to increase as a result of the Kentucky rate case and recoveries associated with environmental investments. Depreciation is expected to increase due to commencing dispatch of TC2 in January 2011.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Business," and "Risk Factors" in KU's 2011 Registration Statement for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margin

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margin." Margin is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margin is a single financial performance measure of KU's operations. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expenses and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. As a result, this measure represents the net revenues from KU's operations. KU believes that Margin provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margin" as defined by KU for the periods ended June 30.

	2011 Three Months - Successor			2010 Three Months - Predecessor		
	Margin	Other (a)	Operating Income (b)	Margin	Other (a)	Operating Income (b)
Operating Revenue	$ 366	$ (1)	$ 365	$ 350		$ 350
Operating Expenses						
Fuel	124		124	119		119
Energy purchases	25		25	42		42
Other operation and maintenance	12	88	100	7	$ 74	81
Depreciation	12	35	47	8	26	34
Taxes, other than income		4	4		3	3
Total Operating Expenses	173	127	300	176	103	279
Total	$ 193	$ (128)	$ 65	$ 174	$ (103)	$ 71

	2011 Six Months - Successor			2010 Six Months - Predecessor		
	Margin	Other (a)	Operating Income (b)	Margin	Other (a)	Operating Income (b)
Operating Revenue	$ 771		$ 771	$ 730		$ 730
Operating Expenses						
Fuel	254		254	245		245
Energy purchases	60		60	96		96
Other operation and maintenance	22	$ 162	184	16	$ 141	157
Depreciation	23	69	92	16	52	68
Taxes, other than income		9	9		6	6
Total Operating Expenses	359	240	599	373	199	572
Total	$ 412	$ (240)	$ 172	$ 357	$ (199)	$ 158

(a) Represents amounts that are excluded from Margin.
(b) As reported on the Condensed Statements of Income.

Changes in Non-GAAP Financial Measures

Margins were higher by $19 million and $55 million for the three and six months ended June 30, 2011, compared with the same periods in 2010. The positive impact mainly resulted from a rate increase, which became effective August 1, 2010, partially offset by lower volumes. The rate increase had a $21 million and $54 million impact on the three and six-month periods. Lower volumes resulted from a 23% decrease in total cooling degree days for both the three and six month periods. Volumes for the six-month period were also impacted by a 6% decrease in heating degrees days.

Other Operation and Maintenance

Changes in other operation and maintenance expense for the periods ended June 30, 2011, compared with 2010 were due to:

	Three Months	Six Months
Steam maintenance (a)	$ 9	$ 14
Steam operations (b)	2	6
Transmission		2
Distribution maintenance (c)	2	(2)
Administrative and general	2	3
Other	4	4
Total	$ 19	$ 27

(a) The increases for the three and six-month periods were due to higher boiler and burner maintenance costs along with an increase in the scope of scheduled outages.
(b) The increases for the three and six-month periods were primarily because the E.W. Brown Flue Gas Desulfurization equipment was not in-service until June 2010, coupled with increases in scrubber reactant expenses and other consumables.
(c) The decrease for the six-month period was primarily the result of $6 million of 2009 storm restoration expenses moved to a regulatory asset in 2011, as these costs will be recovered in rates. This decrease was offset by the cost of a Hazardous Tree removal project initiated in August 2010, which also impacted the change for the three month period.

Depreciation

Changes in depreciation for the three and six months ended June 30, 2011, compared with the same periods in 2010 were due to:

	Three Months	Six Months
TC2 (dispatch began in January 2011)	$ 5	$ 12
E.W. Brown Flue Gas Desulfurization equipment (placed in-service in June 2010)	4	7
Other	4	5
Total	$ 13	$ 24

Interest Expense

Changes in interest expense for the periods ended June 30, 2011, compared with 2010 were due to:

	Three Months	Six Months
Interest rates (a)	$ (5)	$ (9)
Debt balances (b)	1	3
Other	1	1
Total	$ (3)	$ (5)

(a) Interest rates on the first mortgage bonds were lower than the rates on the Fidelia loans, which were replaced.
(b) KU's debt principal balance was $169 million higher as of June 30, 2011 compared to June 30, 2010.

Income Taxes

There were no changes in income taxes for the three months ended June 30, 2011, compared with the same period in 2010. Changes in income taxes for the six months ended June 30, 2011, compared with the same period in 2010 were due to:

	Six Months
Higher pre-tax book income	$ 7
Other	(1)
Total	$ 6

Financial Condition

Liquidity and Capital Resources

KU had the following at:

	June 30, 2011	December 31, 2010
Cash and cash equivalents	$ 7	$ 3

The $4 million increase in KU's cash and cash equivalents position was primarily the net result of:

- cash provided by operating activities of $181 million;
- a net decrease in short-term debt of $10 million;
- capital expenditures of $97 million; and
- $68 million of common stock dividends.

KU's cash provided by operating activities increased by $26 million for the six months ended June 30, 2011, compared with the same period in 2010, primarily due to:

- an increase in net income of $13 million adjusted for depreciation of $24 million, defined benefit plans - expense of $7 million and deferred income taxes and investment tax credits of $20 million;
- a decrease in fuel of $18 million, which was driven by higher volumes in 2010 in preparation for the commercial operation of TC2 originally expected in mid-2010 along with an increase in consumption due to the dispatch of TC2 beginning in January 2011; and
- a decrease in cash outflows related to the fuel adjustment clause of $6 million in 2011 as compared with 2010 due to a decrease in fuel and power purchase expenses in 2011; partially offset by
- a net increase in working capital from accounts receivable, accounts payable and unbilled revenue of $11 million due to the timing of cash payments, partially offset by the timing of cash receipts and milder weather (fewer cooling degree days) in June 2011 as compared with June 2010;

- the timing of ECR collections of $28 million; and
- an increase in discretionary defined benefit plan contributions of $29 million made in order to achieve KU's long-term funding requirements.

Credit Facilities

At June 30, 2011, KU's committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
Syndicated Credit Facility (a)	$ 400			$ 400
Letter of Credit Facility (b)	198		$ 198	

(a) In June 2011, KU amended its Syndicated Credit Facility such that the fees and the spread to benchmark interest rates for borrowings depend upon KU's senior secured long-term debt rating rather than the senior unsecured debt rating.
(b) In April 2011, KU entered into a new $198 million letter of credit facility that has been used to issue letters of credit to support outstanding tax-exempt bonds. The facility matures in April 2014. In August 2011, KU amended its letter of credit facility such that the fees depend upon KU's senior secured long-term debt rating rather than the senior unsecured debt rating.

The commitments under KU's credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 19% of the total committed capacity available to KU.

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to $400 million at market-based rates (based on highly rated commercial paper issues). At June 30, 2011, there was no balance outstanding. At December 31, 2010, $10 million was outstanding. The interest rate for the period ended December 31, 2010 was 0.25%.

See Note 7 to the Financial Statements for further discussion of KU's credit facilities.

Long-term Debt Securities

At June 30, 2011, KU's tax-exempt revenue bonds that are in the form of auction rate securities and total $96 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the six months ended June 30, 2011, the weighted-average rate on KU's auction rate bonds in total was 0.32%.

Since June 30, 2011, there have been $1.5 billion of issuances and $1.5 billion of retirements of KU's First Mortgage Bonds related to the non-cash exchange of bonds. In April 2011, KU filed a 2011 Registration Statement with the SEC related to offers to exchange securities issued in November 2010 in transactions not registered under the Securities Act of 1933 with similar but registered securities. The 2011 Registration Statement became effective in June 2011 and the exchanges were completed in July 2011, with substantially all securities being exchanged.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of KU. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of KU are based on information provided by KU and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of KU. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in KU's credit ratings could result in higher borrowing costs and reduced access to capital markets.

In KU's 2011 Registration Statement, KU described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, KU is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to KU's ratings, but without stating what ratings have been assigned to KU's securities. The ratings assigned by the rating agencies to KU and its securities may be found, without charge, on each of the respective ratings agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of PPL's then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

- Moody's affirmed the ratings for KU;
- S&P revised the outlook for KU and lowered the issuer, senior secured and short-term ratings of KU; and
- Fitch affirmed the ratings for KU.

In April 2011, S&P took the following actions following the completion of PPL's acquisition of WPD Midlands:

- revised the outlook for KU;
- raised the short-term ratings of KU; and
- affirmed the long-term ratings for KU.

In May 2011, S&P downgraded the long-term rating of four series of pollution control bonds issued on behalf of KU by one notch in connection with the substitution of the letters of credit enhancing these four bonds.

Ratings Triggers

KU has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, and commodity transportation and storage, which contain provisions requiring KU to post additional collateral, or permitting the counterparty to terminate the contract, if KU's credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at June 30, 2011. At June 30, 2011, if KU's credit ratings had been below investment grade, the maximum amount that KU would have been required to post as additional collateral to counterparties was $9 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations.

Capital Expenditures

The table below shows KU's capital expenditure projections at June 30, 2011.

	Projected				
	2011	**2012**	**2013**	**2014**	**2015**
Construction expenditures (a)					
Generating facilities	$ 77	$ 72	$ 60	$ 61	$ 79
Transmission and distribution facilities	116	119	150	143	139
Environmental (b)	152	407	472	382	367
Other	24	26	23	21	33
Total Construction Expenditures	$ 369	$ 624	$ 705	$ 607	$ 618

(a) Construction expenditures include AFUDC, which is not expected to be significant for the years 2011 through 2015.
(b) Includes $143 million of currently estimable costs related to replacement generation units due to EPA regulations not recoverable through the ECR mechanism. KU expects to recover these costs over a period equivalent to the related depreciable lives of the assets through base rates established by future rate cases.

KU's capital expenditure projections for the years 2011 through 2015 total approximately $2.9 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes current estimates for KU's environmental projects related to new and anticipated EPA compliance standards. Actual costs may be significantly lower or higher depending on the final requirements. Certain environmental compliance costs incurred by KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism.

For additional information, see "Liquidity and Capital Resources" in KU's 2011 Registration Statement.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about KU's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk

KU's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, KU is subject to commodity price risk for only a small portion of on-going business operations. KU conducts energy trading and risk management activities to maximize the value of the physical assets at times when the assets are not required to serve KU's customers, and KU manages energy commodity risk using derivative instruments, including swaps and forward contracts.

The balance and change in the net fair value of KU's commodity derivative instruments for the three and six months ended June 30, 2011 and 2010 were not significant.

Interest Rate Risk

KU has issued debt to finance its operations, which exposes it to interest rate risk. At June 30, 2011, KU's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant. KU is also exposed to changes in the fair value of its debt portfolio. KU estimated that a 10% decrease in interest rates at June 30, 2011, would increase the fair value of its debt portfolio by $72 million.

KU had no interest rate hedges outstanding as of June 30, 2011.

Credit Risk

KU is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. KU maintains credit policies and procedures to limit counterparty credit risk including evaluating credit ratings and financial information along with having certain counterparties post margin if the credit exposure exceeds certain thresholds.
KU is exposed to potential losses as a result of nonpayment by customers. KU maintains an allowance for doubtful accounts primarily composed of accounts aged more than four months. Accounts are written off as management determines them uncollectible.

Certain of KU's derivative instruments contain provisions that require it to provide immediate and on-going collateralization of derivative instruments in net liability positions based upon KU's credit ratings from each of the major credit rating agencies. See Notes 13 and 14 to the Financial Statements for information regarding exposure and the risk management activities.

Related Party Transactions

KU is not aware of any material ownership interest or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with KU. See Note 11 to the Financial Statements for additional information on related party transactions between KU and affiliates.

Environmental Matters

Protection of the environment is a major priority for KU and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to KU's air emissions, water discharges and the management of hazardous and solid waste, among other areas, and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc.; and may impact the costs for their products or the demand for KU's services. See "Business – Environmental Matters" in KU's 2011 Registration Statement and Note 10 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Note 18 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: price risk management, regulatory mechanisms, defined benefits, asset impairment, loss accruals, AROs, income taxes, regulatory assets and liabilities and business combinations - purchase price allocation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," in KU's 2011 Registration Statement for a discussion of each critical accounting policy.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in each Registrant's "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

PPL Corporation; PPL Energy Supply LLC; PPL Electric Utilities Corporation; LG&E and KU Energy LLC; Louisville Gas and Electric Company; and Kentucky Utilities Company

(a) Evaluation of disclosure controls and procedures.

The registrants' principal executive officers and principal financial officers, based on their evaluation of the registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of June 30, 2011, the registrants' disclosure controls and procedures are effective to ensure that material information relating to the registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

PPL Corporation

PPL acquired Western Power Distribution East Midlands plc and Western Power Distribution West Midlands plc ("WPD Midlands") on April 1, 2011. These companies are included in PPL's 2011 financial statements as of the date of the acquisition. On a pro forma basis, WPD Midlands would have accounted for approximately 16% of PPL's net income for the six months ended June 30, 2011. WPD Midlands represented 21% and 27% of PPL's consolidated total assets and net assets at June 30, 2011. The internal control over financial reporting of WPD Midlands were excluded from a formal evaluation of effectiveness of PPL Corporation's disclosure controls and procedures. This decision was based upon the significance of these companies to PPL, and the timing of integration efforts underway to transition WPD Midlands' processes, information technology systems and other components of internal control over financial reporting to the internal control structure of PPL. PPL has expanded its consolidation and disclosure controls and procedures to include the acquired companies, and PPL continues to assess the current internal control over financial reporting at WPD Midlands. Risks related to the increased account balances are partially mitigated by PPL's expanded controls and PPL's existing policy of consolidating foreign subsidiaries on a one-month lag, which provided management additional time for review and analysis of WPD Midlands' results and their incorporation into PPL's consolidated financial statements.

(b) Change in internal control over financial reporting.

PPL Corporation

PPL's principal executive officer and principal financial officer have concluded that the WPD Midlands acquisition created a material change to its internal control over financial reporting. WPD Midlands is a significant subsidiary for PPL that will continue to operate under its pre-acquisition internal control over financial reporting for the remainder of 2011. PPL is transitioning the processes, information technology systems and other components of internal control over financial reporting of WPD Midlands to the internal control structure of PPL. PPL has expanded its consolidation and disclosure controls and procedures related to its foreign activities to include the acquired companies, and PPL continues to assess the current internal control over financial reporting at WPD Midlands. Risks related to the increased account balances are partially mitigated by PPL's expanded controls and PPL's existing policy of consolidating foreign subsidiaries on a one-month lag, which provided management additional time for review and analysis of WPD Midlands' results and their incorporation into PPL's consolidated financial statements. The aforementioned principal executive officer and principal financial officer have concluded that there were no other changes in the registrant's internal control over financial reporting during the registrant's second fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

PPL Energy Supply LLC; PPL Electric Utilities Corporation; LG&E and KU Energy LLC; Louisville Gas and Electric Company; and Kentucky Utilities Company

The registrants' principal executive officers and principal financial officers have concluded that there were no changes in the registrants' internal control over financial reporting during the registrants' second fiscal quarter that have materially affected, or are reasonably likely to materially affect the registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For additional information regarding various pending administrative and judicial proceedings involving regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in PPL's, PPL Energy Supply's and PPL Electric's 2010 Form 10-K and "Business – Legal Proceedings" in LKE's, LG&E's and KU's 2011 Registration Statement; and
- Notes 6 and 10 of the registrants' "Combined Notes to Condensed Financial Statements (unaudited)" in Part I of this report.

Item 1A. Risk Factors

PPL Corporation

The risk factors discussed below are related to PPL's April 1, 2011 acquisition of WPD Midlands, as described in Note 8 to the Financial Statements. They should be read in conjunction with and update and supplement the risk factors disclosed in PPL's "Item 1A. Risk Factors" of the 2010 Form 10-K.

We have issued securities that contain provisions that could restrict our payment of dividends.
We and our subsidiaries currently have outstanding $2.6 billion principal amount of junior subordinated notes, and we and our subsidiaries may in the future issue additional junior subordinated notes or similar securities, that in certain circumstances, including the failure to pay current interest, would limit our ability to pay dividends on our common stock. While we currently do not anticipate that any of these circumstances will occur, no assurance can be given that these circumstances will not occur in the future.

Risks Relating to the WPD Midlands Acquisition
The WPD Midlands acquisition may not achieve its intended results, including anticipated cost savings, efficiencies and other benefits.
Although we completed the WPD Midlands acquisition with the expectation that it will result in various benefits, including a significant amount of cost savings and other financial and operational benefits, there can be no assurance regarding when or the extent to which we will be able to realize these cost-savings or other benefits. Achieving the anticipated benefits, including cost savings, is subject to a number of uncertainties, including whether the businesses acquired can be operated in the manner we intend. Events outside of our control, including but not limited to regulatory changes or developments in the U.K., could also adversely affect our ability to realize the anticipated benefits from the WPD Midlands acquisition. Thus the integration may be unpredictable, subject to delays or changed circumstances, and we can give no assurance that the acquired businesses will perform in accordance with our expectations or that our expectations with respect to integration or cost savings as a result of the acquisition will materialize. In addition, we expect to incur additional costs and charges in connection with integrating the acquired businesses, including severance payments and other restructuring and transitional charges. Additional unanticipated costs may also arise during the integration process. The integration of the WPD (East Midlands) and WPD (West Midlands) businesses may place an additional burden on our management and internal resources, and the diversion of management's attention during the integration and restructuring process could have an adverse effect on our business, financial condition and expected operating results.

The WPD Midlands acquisition exposes us to additional risks and uncertainties with respect to the acquired businesses and their operations.
The WPD Midlands acquisition will rebalance our business mix to a greater percentage of regulated operations. While we believe this should help mitigate our exposure to downturns in the wholesale power markets, it will increase our dependence on rate-of-return regulation. Although we are already exposed to risks relating to rate-of-return regulation, the WPD Midlands acquisition will increase these risks.

The acquired businesses will generally be subject to risks similar to those that we are subject to in our existing U.K. businesses. These include:

- Under current regulation by Ofgem, our U.K. regulated businesses' allowed revenue is determined by the distribution price controls set out under the terms of their respective distribution licenses, and is typically set by Ofgem every five years. The current price control period runs from April 1, 2010 to March 31, 2015. Furthermore, our ability to earn additional revenue under Ofgem regulations is highly dependent on our ability to achieve certain operational efficiency, customer service and other incentives, and we can provide no assurance that we will be able to achieve such incentives.

- There are various changes being contemplated by Ofgem to the current electricity distribution, gas transmission and gas distribution regulatory frameworks in the U.K. and there can be no assurance as to the effects such changes will have on our U.K. regulated businesses in the future, including the acquired businesses. In particular, in October 2010, Ofgem announced a new regulatory framework that is expected to become effective in April 2015 for the electricity distribution sector in the U.K. The framework, known as RIIO (Revenues = Incentives + Innovation + Outputs), focuses on sustainability, environmental-focused output measures, promotion of low carbon energy networks and financing of new investments. The new regulatory framework is expected to have a wide-ranging effect on electricity distribution companies operating in the U.K., including changes to price controls and price review periods. Our U.K. regulated businesses' compliance with this new regulatory framework may result in significant additional capital expenditures, increases in operating and compliance costs and adjustments to our pricing models.

- Ofgem has formal powers to propose modifications to each distribution license. We are not currently aware of any planned modification to any of our U.K. regulated businesses distribution licenses that would result in a material adverse effect to the U.K. regulated businesses and PPL. There can, however, be no assurance that a restrictive modification will not be introduced in the future, which could have an adverse effect on the operations and financial condition of the U.K. regulated businesses and PPL.

- A failure to operate our U.K. networks properly could lead to compensation payments or penalties, or a failure to make capital expenditures in line with agreed investment programs could lead to deterioration of the network. While our U.K. regulated businesses' investment programs are targeted to maintain asset conditions over a five-year period and reduce customer interruptions and customer minutes lost over that period, no assurance can be provided that these regulatory requirements will be met.

- A failure by any of our U.K. regulated businesses to comply with the terms of a distribution license may lead to the issuance of an enforcement order by Ofgem that could have an adverse impact on PPL. Ofgem has powers to levy fines of up to 10 percent of revenue for any breach of a distribution license or, in certain circumstances, such as insolvency, the distribution license itself may be revoked. Unless terminated in the circumstances mentioned above, a distribution license continues indefinitely until revoked by Ofgem following no less than 25 years' written notice. Our U.K. regulated businesses have in place policies, systems and processes to help ensure compliance with their distribution licenses and relevant legislation. While none of our U.K. regulated businesses are currently subject to any formal or informal investigation by Ofgem in relation to enforcement matters and we are not aware of any area of material non-compliance, there can be no guarantee that our regulated U.K. businesses will not be subject to investigation or enforcement action in the future.

- We will be subject to increased foreign currency exchange rate risks because a greater portion of our cash flows and reported earnings will be generated by our U.K. business operations. These risks relate primarily to changes in the relative value of the British pound sterling and the U.S. dollar between the time we initially invest U.S. dollars in our U.K. businesses and the time that cash is repatriated to the U.S. from the U.K., including cash flows from our U.K. businesses that may be distributed as future dividends to our shareholders. In addition, our consolidated reported earnings on a U.S. GAAP basis may be subject to increased earnings translation risk, which is the result of the conversion of earnings as reported in our U.K. businesses on a British pound sterling basis to a U.S. dollar basis in accordance with U.S. GAAP requirements.

- Environmental costs and liabilities associated with aspects of the acquired businesses may differ from those of our existing business, including with respect to our electricity distribution, gas transmission and certain former operations, as well as with governmental and other third party proceedings.

We have incurred and will in the future incur significant transaction and acquisition-related costs in connection with financing and integrating the WPD Midlands acquisition.

We have incurred significant non-recurring costs associated with the WPD Midlands acquisition. Significant additional expenses will likely be incurred to complete the restructuring of WPD (East Midlands) and WPD (West Midlands) in order to achieve the operational efficiencies and other benefits expected to result in enhanced financial returns from those businesses.

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Except as noted below for PPL Energy Supply, there have been no material changes in PPL Energy Supply's and PPL Electric's risk factors from those disclosed in "Item 1A. Risk Factors" of the 2010 Form 10-K or in "Risk Factors" in LKE's, LG&E's and KU's 2011 Registration Statement.

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global, representing 100% of the outstanding membership interest of PPL Global, to PPL Energy Supply's parent, PPL Energy Funding. As a result, PPL Energy Supply is no longer subject to "Risks Related to International Regulated Segment."

Item 5. Other Information

PPL Corporation

At PPL's Annual Meeting of Shareowners held on May 18, 2011, a majority of the votes cast by shareowners voted, on an advisory basis, to hold an advisory vote to approve executive compensation every year. In line with this recommendation by its shareowners, PPL will include an advisory shareowner vote on executive compensation in its proxy materials every year until the next required advisory vote on the frequency of shareowner votes on executive compensation, which will occur no later than PPL's Annual Meeting of Shareowners in 2017.

Item 6. Exhibits

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits has heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [_] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

1(a)	- Final Terms of WPD West Midlands £800,000,000 5.75 per cent Notes due 2032 (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2011)
1(b)	- Final Terms of WPD East Midlands £600,000,000 5.25 per cent Notes due 2023 (Exhibit 1.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2011)
1(c)	- Final Terms of WPD East Midlands £100,000,000 Index Linked Notes due 2043 (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 2, 2011)
4(a)	- Trust Deed, dated April 27, 2011, by and among Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc, as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2011)
4(b)	- Agency Agreement, dated April 27, 2011, by and among Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc, as Issuers, and HSBC Corporate Trustee Company (UK) Limited and HSBC Bank plc (Exhibit 4.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2011)
4(c)	- Supplemental Indenture No. 11, dated as of July 1, 2011, made and entered into by PPL Electric Utilities Corporation and The Bank of New York Mellon, as Trustee, under the Indenture dated as of August 1, 2001 (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated July 13, 2011)
4(d)	Supplemental Indenture No. 12, dated as of July 1, 2011, made and entered into by PPL Electric Utilities Corporation and The Bank of New York Mellon, as Trustee, under the Indenture dated as of August 1, 2001 (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 18, 2011)
*10(a)	- Amendment No. 1, dated as of June 13, 2011, to the Revolving Credit Agreement dated as of November 1, 2010 among Kentucky Utilities Company, the Lenders party thereto, and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender
*10(b)	- Amendment No. 1, dated as of June 13, 2011, to the Revolving Credit Agreement dated as of November 1, 2010 among Louisville Gas and Electric Company, the Lenders party thereto, and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender

*10(c)	-	Amendment No. 5, dated as of July 26, 2011, to the Credit and Security Agreement dated as of August 5, 2008 by and among PPL Receivables Corporation, as Borrower, PPL Electric Utilities Corporation, as Servicer, Victory Receivables Corporation, as a Lender, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Liquidity Bank and as Agent
*10(d)	-	Amendment No. 1, dated as of August 2, 2011, to the Letter of Credit Agreement dated as of April 29, 2011 among Kentucky Utilities Company, as Borrower, the Lenders from time to time party thereto, Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, as Administrative Agent and Lender and Sumitomo Mitsui Banking Corporation, New York Branch, as Issuing Lender and Lender
*12(a)	-	PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
*12(b)	-	PPL Energy Supply, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
*12(c)	-	PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
*12(d)	-	LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
*12(e)	-	Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
*12(f)	-	Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended June 30, 2011, filed by the following officers for the following companies:

*31(a)	-	James H. Miller for PPL Corporation
*31(b)	-	Paul A. Farr for PPL Corporation
*31(c)	-	James H. Miller for PPL Energy Supply, LLC
*31(d)	-	Paul A. Farr for PPL Energy Supply, LLC
*31(e)	-	David G. DeCampli for PPL Electric Utilities Corporation
*31(f)	-	Vincent Sorgi for PPL Electric Utilities Corporation
*31(g)	-	Victor A. Staffieri for LG&E and KU Energy LLC
*31(h)	-	S. Bradford Rives for LG&E and KU Energy LLC
*31(i)	-	Victor A. Staffieri for Louisville Gas and Electric Company
*31(j)	-	S. Bradford Rives for Louisville Gas and Electric Company
*31(k)	-	Victor A. Staffieri for Kentucky Utilities Company
*31(l)	-	S. Bradford Rives for Kentucky Utilities Company

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended June 30, 2011, furnished by the following officers for the following companies:

*32(a)	-	James H. Miller for PPL Corporation
*32(b)	-	Paul A. Farr for PPL Corporation
*32(c)	-	James H. Miller for PPL Energy Supply, LLC
*32(d)	-	Paul A. Farr for PPL Energy Supply, LLC
*32(e)	-	David G. DeCampli for PPL Electric Utilities Corporation
*32(f)	-	Vincent Sorgi for PPL Electric Utilities Corporation
*32(g)	-	Victor A. Staffieri for LG&E and KU Energy LLC
*32(h)	-	S. Bradford Rives for LG&E and KU Energy LLC
*32(i)	-	Victor A. Staffieri for Louisville Gas and Electric Company
*32(j)	-	S. Bradford Rives for Louisville Gas and Electric Company

*32(k)	-	Victor A. Staffieri for Kentucky Utilities Company
*32(l)	-	S. Bradford Rives for Kentucky Utilities Company
**101.INS	-	XBRL Instance Document for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
**101.SCH	-	XBRL Taxonomy Extension Schema for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
**101.CAL	-	XBRL Taxonomy Extension Calculation Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
**101.DEF	-	XBRL Taxonomy Extension Definition Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
**101.LAB	-	XBRL Taxonomy Extension Label Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
**101.PRE	-	XBRL Taxonomy Extension Presentation Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

** - XBRL information will be considered to be furnished, not filed, for the first two years of a company's submission of XBRL information.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation
(Registrant)

PPL Energy Supply, LLC
(Registrant)

PPL Electric Utilities Corporation
(Registrant)

Date: August 5, 2011

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller
(Chief Accounting Officer)

LG&E and KU Energy LLC
(Registrant)

Louisville Gas and Electric Company
(Registrant)

Kentucky Utilities Company
(Registrant)

Date: August 5, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
(Principal Financial Officer)

Exhibit 10a

AMENDMENT NO. 1 TO REVOLVING CREDIT AGREEMENT

AMENDMENT dated as of June 13, 2011 (this " **Amendment** ") to the Revolving Credit Agreement dated as of November 1, 2010 (the " **Credit Agreement** ") among KENTUCKY UTILITIES COMPANY (the " **Borrower** "), the LENDERS party thereto (the " **Lenders** "), and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent, Issuing Lender and Swingline Lender (the " **Agent** ").

RECITALS:

WHEREAS, the parties hereto desire to amend the Credit Agreement to modify the definition of "Borrower's Rating". The parties hereto therefore agree as follows:

Section 1. *Defined Terms; References.* Unless otherwise specifically defined herein, each term used herein that is defined in the Credit Agreement has the meaning assigned to such term in the Credit Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Credit Agreement shall, after this Amendment becomes effective, refer to the Credit Agreement as amended hereby and each reference to "thereof", "thereunder", "therein" and "thereby" and each other similar reference to the Credit Agreement contained in any other Loan Document shall, after this treatment becomes effective refer to the Credit Agreement as amended hereby.

Section 2. *Amendments of Credit Agreement Definitions.*

(a) The definition of "Borrower's Rating" set forth in Section 1.01 of the Credit Agreement is hereby amended to read in its entirety:

" Borrower's Rating " means the senior secured long-term debt rating of the Borrower from S&P or Moody's.

(b) The definition of "Applicable Percentage" set forth in Section 1.01 of the Credit Agreement is hereby amended to read in its entirety:

" Applicable Percentage " means, for purposes of calculating (i) the applicable interest rate for any day for any Base Rate Loans or Euro-Dollar Loans, (ii) the applicable rate for the Commitment Fee for any day for purposes of Section 2.07(a) or (iii) the applicable rate for the Letter of Credit Fee for any day for purposes of Section 2.07(b), the appropriate applicable percentage set forth below corresponding to one rating level below the then current highest Borrower's Ratings; provided , that, in the event that the Borrower's Ratings shall fall within different levels and ratings are maintained by both Rating Agencies, the applicable rating shall be based on the higher of the two ratings unless one of the ratings is two or more levels lower than the other, in which case the applicable rating shall be determined by reference to the level one rating lower than the higher of the two ratings:

	Borrower's Ratings (S&P /Moody's)	Applicable Percentage for Commitment Fees	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees
Category A	≥ A- from S&P / A3 from Moody's	0.200%	0.75%	1.75%
Category B	BBB+ from S&P / Baa1 from Moody's	0.250%	1.00%	2.00%
Category C	BBB from S&P / Baa2 from Moody's	0.375%	1.25%	2.25%
Category D	BBB- from S&P / Baa3 from Moody's	0.500%	1.50%	2.50%
Category E	≤BB+ from S&P / Ba1 from Moody's	0.625%	2.00%	3.00%

Section 3. *Governing Law.* This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

Section 4. *Full Force and Effect ; Ratification* . Except as expressly modified herein, all of the terms and conditions of the Credit Agreement are unchanged, and, as modified hereby, the Borrower confirms and ratifies all of the terms, covenants and conditions of the Credit Agreement. This Amendment constitutes the entire and final agreement among the parties hereto with respect to the subject matter hereof and there are no other agreements, understandings, undertakings, representations or warranties among the parties hereto with respect to the subject matter hereof except as set forth herein.

Section 5. *Counterparts.* This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

Section 6. *Effectiveness.* This Amendment shall become retroactively effective as of May 1, 2011, on the date when the Agent shall have received from each of the Borrower and the Lenders a counterpart hereof signed by such party or facsimile or other written confirmation (in form satisfactory to the Agent) that such party has signed a counterpart hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first above written.

KENTUCKY UTILITIES COMPANY

By: /s/ Daniel K. Arbough

Name: Daniel K. Arbough

Title: Treasurer

WELLS FARGO BANK, NATIONAL ASSOCIATION as
Administrative Agent, Issuing Lender, Swingline Lender and Lender

By: /s/ Nick Schmiesing
Name: Nick Schmiesing
Title: Assistant Vice President

Bank of America, N.A.

By: /s/ Mike Mason

Name:Mike Mason

Title:Director

CREDIT SUISSE AG, Cayman Islands Branch

By: /s/ Jay Chall

Name:Jay Chall

Title:Director

By: /s/ Vipul Dhadda

Name:Vipul Dhadda

Title:Associate

Barclays Bank PLC

By: /s/ May Huang

Name: May Huang

Title: Assistant Vice President

BNP Paribas

By: /s/ Pasquale A. Perraglia IV

Name:Pasquale A. Perraglia IV

Title:Vice President

By: /s/ Mark A. Renaud

Name:Mark A. Renaud

Title:Managing Director

CITIBANK, N.A.

By: /s/ Mary Beth Mandanas

Name: Mary Beth Mandanas

Title: Vice President

JPMorgan Chase Bank, N.A., as a Lender

By: /s/ Juan Javellana

Name:Juan Javellana

Title:Executive Director

MORGAN STANLEY BANK, N.A.

By: /s/ Scott Taylor

Name: Scott Taylor

Title: Authorized Signatory

ROYAL BANK OF CANADA

By: /s/ Thomas Casey

Name: Thomas Casey

Title: Authorized Signatory

THE BANK OF NOVA SCOTIA

By: /s/ Thane Rattew

Name: Thane Rattew

Title: Managing Director

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

By: /s/ Mary Coseo

Name: Mary Coseo

Title: Vice President

Union Bank, N.A.

By: /s/ Hideyuki Okamoto

Name: Hideyuki Okamoto

Title: Vice President

The Royal Bank of Scotland plc
as a Lender

By: /s/ Andrew N. Taylor

Name: Andrew N. Taylor

Title: Vice President

UBS Loan Finance LLC

By: /s/ Irja R. Otsa

Name:Irja R. Otsa

Title:Associate Director

By: /s/ Mary E. Evans

Name:Mary E. Evans

Title:Associate Director

CREDIT AGRICOLE CORPORATE AND INVESTMENT BANK

By: /s/ Dixon Schultz

Name: Dixon Schultz

Title: Managing Director

By: /s/ Sharada Manne

Name: Sharada Manne

Title: Director

DEUTSCHE BANK AG NEW YORK BRANCH, as a Lender

By: /s/ Phillippe Sandmeier

Name: Phillippe Sandmeier

Title: Managing Director

By: /s/ Edward D. Herko

Name: Edward D. Herko

Title: Director

KEYBANK NATIONAL ASSOCIATION as Lender

By: /s/ Paul J. Pace

Name:Paul J. Pace

Title:Senior Vice President

Lloyds TSB Bank plc

By: /s/ Deborah Carlson

Name:Deborah Carlson
Title:Director
Corporate Banking USA
C103

By: /s/ Christian Hammerbeck

Name:Christian Hammerbeck
Title:Vice President
Corporate Banking USA
H057

U.S. Bank National Association

By: /s/ Paul Vastola

Name: Paul Vastola

Title: Sr. Vice President

BANCO BILBAO VIZCAYA ARGENTARIA S.A. – NEW YORK BRANCH

By: /s/ Nietzsche Rodricks
Name: Nietzsche Rodricks
Title: Senior Banker

By: /s/ Michael Oka
Name: Michael Oka
Title: Executive Director

THE BANK OF NEW YORK MELLON

By: /s/ John N. Watt

Name: John N. Watt

Title: Vice President

Bayerische Landesbank, New York Branch

By: /s/ Rolf Siebert

Name:Rolf Siebert

Title:Senior Vice President

By: /s/ Michael Hintz

Name:Michael Hintz

Title:First Vice President

MIZUHO CORPORATE BANK, LTD.

By: /s/ Leon Mo

Name: Leon Mo

Title: Authorized Signatory

Sovereign Bank

By: /s/ Robert D. Lanigan

Name:Robert D. Lanigan

Title:SVP

SUNTRUST BANK

By: /s/ Andrew Johnson

Name: Andrew Johnson

Title: Director

CIBC Inc.

By: /s/ Robert Casey

Name:Robert Casey

Title:Executive Director

By: /s/ Josh Hogarth

Name:Josh Hogarth

Title:Director

Fifth Third Bank

By: /s/ Randolph J. Stierer

Name:Randolph J. Stierer

Title:Vice President

PNC Bank, National Association

By: /s/ Edward M. Tessalone

Name: Edward M. Tessalone

Title: Senior Vice President

PNC Bank, N.A.

Sumitomo Mitsui Banking Corporation

By: /s/ Masakazu Hasegawa

Name: Masakazu Hasegawa

Title: General Manager

Wing Lung Bank Ltd., Los Angeles Branch, as a Lender

By: /s/ Anthony P.S. Yip

Name:Anthony P.S. Yip

Title:V.P. & Manager

THE NORTHERN TRUST COMPANY

By: /s/ Peter J. Hallan

Name: Peter J. Hallan

Title: Vice President

Exhibit 10(b)

AMENDMENT NO. 1 TO REVOLVING CREDIT AGREEMENT

AMENDMENT dated as of June 13, 2011 (this " **Amendment** ") to the Revolving Credit Agreement dated as of November 1, 2010 (the " **Credit Agreement** ") among LOUISVILLE GAS AND ELECTRIC COMPANY (the " **Borrower** "), the LENDERS party thereto (the " **Lenders** "), and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent, Issuing Lender and Swingline Lender (the " **Agent** ").

RECITALS:

WHEREAS, the parties hereto desire to amend the Credit Agreement to modify the definition of "Borrower's Rating". The parties hereto therefore agree as follows:

Section 1. *Defined Terms; References.* Unless otherwise specifically defined herein, each term used herein that is defined in the Credit Agreement has the meaning assigned to such term in the Credit Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Credit Agreement shall, after this Amendment becomes effective, refer to the Credit Agreement as amended hereby and each reference to "thereof", "thereunder", "therein" and "thereby" and each other similar reference to the Credit Agreement contained in any other Loan Document shall, after this treatment becomes effective refer to the Credit Agreement as amended hereby.

Section 2. *Amendments of Credit Agreement Definitions.*

(a) The definition of "Borrower's Rating" set forth in Section 1.01 of the Credit Agreement is hereby amended to read in its entirety:

" Borrower's Rating " means the senior secured long-term debt rating of the Borrower from S&P or Moody's.

(b) The definition of "Applicable Percentage" set forth in Section 1.01 of the Credit Agreement is hereby amended to read in its entirety:

" Applicable Percentage " means, for purposes of calculating (i) the applicable interest rate for any day for any Base Rate Loans or Euro-Dollar Loans, (ii) the applicable rate for the Commitment Fee for any day for purposes of Section 2.07(a) or (iii) the applicable rate for the Letter of Credit Fee for any day for purposes of Section 2.07(b), the appropriate applicable percentage set forth below corresponding to one rating level below the then current highest Borrower's Ratings; provided , that, in the event that the Borrower's Ratings shall fall within different levels and ratings are maintained by both Rating Agencies, the applicable rating shall be based on the higher of the two ratings unless one of the ratings is two or more levels lower than the other, in which case the applicable rating shall be determined by reference to the level one rating lower than the higher of the two ratings:

	Borrower's Ratings (S&P /Moody's)	Applicable Percentage for Commitment Fees	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees
Category A	≥ A- from S&P / A3 from Moody's	0.200%	0.75%	1.75%
Category B	BBB+ from S&P / Baa1 from Moody's	0.250%	1.00%	2.00%
Category C	BBB from S&P / Baa2 from Moody's	0.375%	1.25%	2.25%
Category D	BBB- from S&P / Baa3 from Moody's	0.500%	1.50%	2.50%
Category E	≤BB+ from S&P / Ba1 from Moody's	0.625%	2.00%	3.00%

Section 3. *Governing Law.* This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

Section 4. *Full Force and Effect ; Ratification* . Except as expressly modified herein, all of the terms and conditions of the Credit Agreement are unchanged, and, as modified hereby, the Borrower confirms and ratifies all of the terms, covenants and conditions of the Credit Agreement. This Amendment constitutes the entire and final agreement among the parties hereto with respect to the subject matter hereof and there are no other agreements, understandings, undertakings, representations or warranties among the parties hereto with respect to the subject matter hereof except as set forth herein.

Section 5. *Counterparts.* This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

Section 6. *Effectiveness.* This Amendment shall become retroactively effective as of May 1, 2011, on the date when the Agent shall have received from each of the Borrower and the Lenders a counterpart hereof signed by such party or facsimile or other written confirmation (in form satisfactory to the Agent) that such party has signed a counterpart hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first above written.

LOUISVILLE GAS AND ELECTRIC COMPANY

By: /s/ Daniel K. Arbough

Name: Daniel K. Arbough

Title: Treasurer

WELLS FARGO BANK, NATIONAL ASSOCIATION as Administrative Agent, Issuing Lender, Swingline Lender and Lender

By: /s/ Nick Schmiesing
Name: Nick Schmiesing
Title: Assistant Vice President

Bank of America, N.A.

By: /s/ Mike Mason
Name: Mike Mason
Title: Director

CREDIT SUISSE AG, Cayman Islands Branch

By: /s/ Jay Chall
Name: Jay Chall
Title: Director

By: /s/ Vipul Dhadda
Name: Vipul Dhadda
Title: Associate

Barclays Bank PLC

By: /s/ May Huang

Name: May Huang

Title: Assistant Vice President

BNP Paribas

By: /s/ Pasquale A. Perraglia IV
Name: Pasquale A. Perraglia IV
Title: Vice President

By: /s/ Mark A. Renaud
Name: Mark A. Renaud
Title: Managing Director

CITIBANK, N.A.

By: /s/ Mary Beth Mandanas

Name: Mary Beth Mandanas

Title: Vice President

JPMorgan Chase Bank, N.A., as a Lender

By: /s/ Juan Javellana

Name: Juan Javellana

Title: Executive Director

MORGAN STANLEY BANK, N.A.

By: /s/ Scott Taylor

Name: Scott Taylor

Title: Authorized Signatory

ROYAL BANK OF CANADA

By: /s/ Thomas Casey
Name: Thomas Casey
Title: Authorized Signatory

THE BANK OF NOVA SCOTIA

By: /s/ Thane Rattew
Name: Thane Rattew
Title: Managing Director

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

By: /s/ Mary Coseo
Name: Mary Coseo
Title: Vice President

Union Bank, N.A.

By: /s/ Hideyuki Okamoto

Name: Hideyuki Okamoto

Title: Vice President

The Royal Bank of Scotland plc as a Lender

By: /s/ Andrew N. Taylor
Name: Andrew N. Taylor
Title: Vice President

UBS Loan Finance LLC

By: /s/ Irja R. Otsa
Name: Irja R. Otsa
Title: Associate Director

By: /s/ Mary E. Evans
Name: Mary E. Evans
Title: Associate Director

CREDIT AGRICOLE CORPORATE AND INVESTMENT BANK

By: /s/ Dixon Schultz
Name: Dixon Schultz
Title: Managing Director

By: /s/ Sharada Manne
Name: Sharada Manne
Title: Director

DEUTSCHE BANK AG NEW YORK BRANCH, as a Lender

By: /s/ Phillippe Sandmeier
Name: Phillippe Sandmeier
Title: Managing Director

By: /s/ Edward D. Herko
Name: Edward D. Herko
Title: Director

KEYBANK NATIONAL ASSOCIATION as Lender

By: /s/ Paul J. Pace

Name: Paul J. Pace

Title: Senior Vice President

Lloyds TSB Bank plc

By: /s/ Deborah Carlson
Name: Deborah Carlson
Title: Director
Corporate Banking USA
C103

By: /s/ Christian Hammerbeck
Name: Christian Hammerbeck
Title: Vice President
Corporate Banking USA
H057

U.S. Bank National Association

By: /s/ Paul Vastola

Name: Paul Vastola

Title: Sr. Vice President

BANCO BILBAO VIZCAYA ARGENTARIA S.A. – NEW YORK BRANCH

By: /s/ Nietzsche Rodricks
Name: Nietzsche Rodricks
Title: Senior Banker

By: /s/ Michael Oka
Name: Michael Oka
Title: Executive Director

THE BANK OF NEW YORK MELLON

By: /s/ John N. Watt

Name: John N. Watt

Title: Vice President

Bayerische Landesbank, New York Branch

By: /s/ Rolf Siebert
Name: Rolf Siebert
Title: Senior Vice President

By: /s/ Michael Hintz
Name: Michael Hintz
Title: First Vice President

MIZUHO CORPORATE BANK, LTD.

By: /s/ Leon Mo

Name: Leon Mo

Title: Authorized Signatory

Sovereign Bank

By: /s/ Robert D. Lanigan
Name: Robert D. Lanigan
Title: SVP

SUNTRUST BANK

By: /s/ Andrew Johnson
Name: Andrew Johnson
Title: Director

CIBC Inc.

By: /s/ Robert Casey
Name: Robert Casey
Title: Executive Director

By: /s/ Josh Hogarth
Name: Josh Hogarth
Title: Director

Fifth Third Bank

By: /s/ Randolph J. Stierer
Name: Randolph J. Stierer
Title: Vice President

PNC Bank, National Association

By: /s/ Edward M. Tessalone

Name: Edward M. Tessalone

Title: Senior Vice President

PNC Bank, N.A.

Sumitomo Mitsui Banking Corporation

By: /s/ Masakazu Hasegawa
Name: Masakazu Hasegawa
Title: General Manager

Wing Lung Bank Ltd., Los Angeles Branch, as a Lender

By: /s/ Anthony P.S. Yip

Name: Anthony P.S. Yip

Title: V.P. & Manager

THE NORTHERN TRUST COMPANY

By: /s/ Peter J. Hallan
Name: Peter J. Hallan
Title: Vice President

Exhibit 10(c)

Execution Copy

AMENDMENT NO. 5

TO THE CREDIT AND SECURITY AGREEMENT

This AMENDMENT NO. 5 TO THE CREDIT AND SECURITY AGREEMENT (this " Amendment "), dated as of July 26, 2011, is by and among PPL RECEIVABLES CORPORATION, as Borrower (the " Borrower "), PPL ELECTRIC UTILITIES CORPORATION, as Servicer (the " Servicer "), VICTORY RECEIVABLES CORPORATION (" Victory "), as a Lender, and THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., NEW YORK BRANCH, as Liquidity Bank (in such capacity, the " Liquidity Bank ") and as Agent (in such capacity, the " Agent "). Capitalized terms used but not otherwise defined herein shall have the respective meanings assigned thereto in the Agreement (as defined below), including terms and definitions incorporated by reference therein.

WHEREAS, the parties hereto have entered into that certain Credit and Security Agreement, dated as of August 5, 2008 (as amended, supplemented and otherwise modified from time to time and as may be further amended, supplemented and otherwise modified from time to time, the " Agreement ");

WHEREAS, in connection with this Amendment, the parties hereto are entering into a third amended and restated Fee Letter, dated as of the date hereof (the " A&R Fee Letter "); and

WHEREAS, the parties hereto desire to amend the Agreement as herein set forth;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Amendments to the Agreement . The Agreement is hereby amended as follows:

1.1 The definition of " Facility Termination Date " set forth in Exhibit I to the Agreement is amended by (i) replacing the date "July 26, 2011" where it appears in clause (iii) thereof with the date "July 24, 2012".

1.2 Section 5.1(l) of the Agreement is amended by replacing the date "December 31, 2009" where it appears therein with the date "December 31, 2010".

SECTION 2. Representations and Warranties of the Originator . Each of the Borrower and the Servicer, as to itself, hereby represents and warrants to Victory, the Liquidity Bank and the Agent as follows:

2.1 The representations and warranties of such Person contained in Article V of the Agreement (as amended hereby) are true and correct as of the date hereof (unless stated to relate solely to an earlier date, in which case such representations and warranties were true and correct as of such earlier date).

2.2 This Amendment and the Agreement (as amended hereby) constitute the legal, valid and binding obligation of such Person enforceable against such Person in accordance with their respective terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally and to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION 3. Conditions to Effectiveness . This Amendment shall become effective as of the date hereof upon receipt by the Agent of the following:

3.1 counterparts of this Amendment executed by each of the parties hereto;

3.2 counterparts of the A&R Fee Letter executed by each of the parties thereto; and

3.3 payment in full of the renewal fee payable pursuant to the A&R Fee Letter in accordance with the terms thereof.

SECTION 4. Effect of Amendment; Ratification . Except as specifically amended hereby, the Agreement is hereby ratified and confirmed in all respects, and all of its provisions shall remain in full force and effect. After this Amendment becomes effective, all references in the Agreement (or in any other Transaction Document) to "this Agreement", "hereof", "herein", or words of similar effect, in each case referring to the Agreement, shall be deemed to be references to the Agreement as amended hereby. This Amendment shall not be deemed to expressly or impliedly waive, amend, or supplement any provision of the Agreement other than as specifically set forth herein.

SECTION 5. Counterparts; Delivery . This Amendment may be executed in any number of counterparts and by different parties on separate counterparts, and each counterpart shall be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile or other electronic means shall be effective as delivery of a manually executed counterpart of this Amendment.

SECTION 6. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (INCLUDING SECTIONS 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK BUT OTHERWISE WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES).

SECTION 7. Section Headings. The various headings of this Amendment are inserted for convenience only and shall not affect the meaning or interpretation of this Amendment or the Agreement or any provision hereof or thereof.

[Signature pages follow.]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date first written above.

PPL RECEIVABLES CORPORATION,
as Borrower

By: ____________________________
Name:
Title:

PPL ELECTRIC UTILITIES CORPORATION,
as Servicer

By: ____________________________
Name:
Title:

VICTORY RECEIVABLES CORPORATION,
as a Lender

By: ______________________________
Name:
Title:

THE BANK OF TOKYO-MITSUBISHI UFJ. LTD., NEW YORK BRANCH, as a Liquidity Bank

By: ______________________________
Name:
Title:

THE BANK OF TOKYO-MITSUBISHI UFJ. LTD., NEW YORK BRANCH, as Agent

By: ______________________________
Name:
Title:

Exhibit 10(d)

EXECUTION VERSION

AMENDMENT NO. 1 TO LETTER OF CREDIT AGREEMENT

AMENDMENT dated as of August 2, 2011 (this " **Amendment** ") to the Letter of Credit Agreement dated as of April 29, 2011 (the " **Credit Agreement** ") among KENTUCKY UTILITIES COMPANY (the " **Borrower** "), the LENDERS from time to time party thereto (the " **Lenders** "), BANCO BILBAO VIZCAYA ARGENTARIA, S.A., NEW YORK BRANCH, as Administrative Agent and Lender (the " **Agent** ") and SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH, as Issuing Lender and Lender.

RECITALS:

WHEREAS, the parties hereto desire to amend the Credit Agreement to modify the definitions of "Applicable Percentage" and "Borrower's Rating". The parties hereto therefore agree as follows:

Section 1. *Defined Terms; References.* Unless otherwise specifically defined herein, each term used herein that is defined in the Credit Agreement has the meaning assigned to such term in the Credit Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Credit Agreement shall, after this Amendment becomes effective, refer to the Credit Agreement as amended hereby and each reference to "thereof", "thereunder", "therein" and "thereby" and each other similar reference to the Credit Agreement contained in any other Loan Document shall, after this treatment becomes effective refer to the Credit Agreement as amended hereby.

Section 2. *Amendments of Credit Agreement Definitions.*

(a) The definition of "Applicable Percentage" set forth in Section 1.01 of the Credit Agreement is hereby amended to read in its entirety:

" Applicable Percentage " means, for purposes of calculating the applicable rate for the Facility Fee for any day for purposes of Section 2.03(a), the appropriate applicable percentage set forth below corresponding to the then current highest Borrower's Ratings; provided , that, in the event that the Borrower's Ratings shall fall within different levels and ratings are maintained by both Rating Agencies, the applicable rating shall be based on the higher of the two ratings unless one of the ratings is two or more levels lower than the other, in which case the applicable rating shall be determined by reference to the level one rating lower than the higher of the two ratings:

	Borrower's Ratings (S&P /Moody's)	Applicable Percentage for Facility Fees
Category A	> A from S&P / A2 from Moody's	1.000%
Category B	> A- from S&P / A3 from Moody's	1.100%

Category C	BBB+ from S&P / Baa1 from Moody’s	1.200%
Category D	BBB from S&P / Baa2 from Moody’s	1.325%
Category E	BBB- from S&P / Baa3 from Moody’s	1.500%
Category F	≤BB+ from S&P / Ba1 from Moody’s	1.625%

(b) The definition of “Borrower’s Rating” set forth in Section 1.01 of the Credit Agreement is hereby amended to read in its entirety:

“ Borrower’s Rating ” means the rating that is one notch below the senior secured long-term debt rating of the Borrower from S&P or Moody’s.

Section 3. *Applicable Percentage* . For the avoidance of doubt, as of the date hereof, the Applicable Percentage (as determined by reference to the Borrower’s Rating as of the date hereof), is as specified for Category B Borrower’s Ratings.

Section 4. *Governing Law.* This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

Section 5. *Full Force and Effect ; Ratification* . Except as expressly modified herein, all of the terms and conditions of the Credit Agreement are unchanged, and, as modified hereby, the Borrower confirms and ratifies all of the terms, covenants and conditions of the Credit Agreement. This Amendment constitutes the entire and final agreement among the parties hereto with respect to the subject matter hereof and there are no other agreements, understandings, undertakings, representations or warranties among the parties hereto with respect to the subject matter hereof except as set forth herein.

Section 6. *Counterparts.* This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

Section 7. *Effectiveness.* This Amendment shall become effective on the date when the Agent shall have received from each of the Borrower and the Lenders a counterpart hereof signed by such party or facsimile or other written confirmation (in form satisfactory to the Agent) that such party has signed a counterpart hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first above written.

KENTUCKY UTILITIES COMPANY

By: / s/ Daniel K. Arbough
Name: Daniel K. Arbough
Title: Treasurer

BANCO BILBAO VIZCAYA ARGENTARIA, S.A., NEW YORK BRANCH, as Administrative Agent and Lender

By: /s/ Michael Oka
Name: Michael Oka
Title: Executive Director

By: /s/ Nietzsche Rodricks
Name: Nietzsche Rodricks
Title: Executive Director

SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH, as Issuing Lender and Lender

By: /s/ Masakazu Hasegawa
Name: Masakazu Hasegawa
Title: General Manager

Exhibit 12(a)

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	6 Months Ended June 30, 2011	Years Ended December 31, 2010	2009	2008	2007	2006
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	**$ 922**	$ 1,239	$ 538	$ 1,273	$ 1,230	$ 1,061
Adjustment to reflect earnings from equity method investments on a cash basis	**1**	7	1		2	(1)
	923	1,246	539	1,273	1,232	1,060
Total fixed charges as below	**495**	698	513	568	609	559
Less:						
Capitalized interest	**21**	30	43	57	55	23
Preferred security distributions of subsidiaries on a pre-tax basis	**12**	21	24	27	23	24
Interest expense and fixed charges related to discontinued operations	**3**	12	15	16	39	38
Total fixed charges included in Income from Continuing Operations Before Income Taxes	**459**	635	431	468	492	474
Total earnings	**$ 1,382**	$ 1,881	$ 970	$ 1,741	$ 1,724	$ 1,534
Fixed charges, as defined:						
Interest charges (a)	**$ 463**	$ 637	$ 446	$ 518	$ 565	$ 506
Estimated interest component of operating rentals	**20**	39	42	22	21	29
Preferred securities distributions of subsidiaries on a pre-tax basis	**12**	21	24	27	23	24
Fixed charges of majority-owned share of 50% or less-owned persons		1	1	1		
Total fixed charges (b)	**$ 495**	**$ 698**	**$ 513**	**$ 568**	**$ 609**	**$ 559**
Ratio of earnings to fixed charges	**2.8**	2.7	1.9	3.1	2.8	2.7
Ratio of earnings to combined fixed charges and preferred stock dividends (c)	**2.8**	2.7	1.9	3.1	2.8	2.7

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
(b) Interest on unrecognized tax benefits is not included in fixed charges.
(c) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

Exhibit 12(b)

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	6 Months Ended June 30, 2011	Years Ended December 31, 2010	2009	2008	2007	2006
Earnings, as defined:						
Income (Loss) from Continuing Operations Before Income Taxes	**$ 502**	$ 881	$ (13)	$ 671	$ 785	$ 557
Adjustment to reflect earnings from equity method investments on a cash basis	**1**	7	1		2	(2)
	503	888	(12)	671	787	555
Total fixed charges as below	**139**	426	364	390	388	326
Less:						
Capitalized interest	**22**	33	44	57	54	21
Interest expense and fixed charges related to discontinued operations	**3**	147	102	157	217	205
Total fixed charges included in Income from Continuing Operations Before Income Taxes	**114**	246	218	176	117	100
Total earnings	**$ 617**	$ 1,134	$ 206	$ 847	$ 904	$ 655
Fixed charges, as defined:						
Interest charges (a)	**$ 122**	$ 387	$ 321	$ 374	$ 374	$ 311
Estimated interest component of operating rentals	**17**	38	42	15	14	15
Fixed charges of majority-owned share of 50% or less-owned persons		1	1	1		
Total fixed charges (b)	**$ 139**	**$ 426**	**$ 364**	**$ 390**	**$ 388**	**$ 326**
Ratio of earnings to fixed charges	**4.4**	2.7	0.6	2.2	2.3	2.0

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

Exhibit 12(c)

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	6 Months Ended June 30, 2011	Years Ended December 31, 2010	2009	2008	2007	2006
Earnings, as defined:						
Income Before Income Taxes	**$ 138**	$ 192	$ 221	$ 278	$ 246	$ 298
Total fixed charges as below	**49**	102	121	114	143	159
Total earnings	**$ 187**	$ 294	$ 342	$ 392	$ 389	$ 457
Fixed charges, as defined:						
Interest charges (a)	**$ 49**	$ 101	$ 120	$ 113	$ 139	$ 152
Estimated interest component of operating rentals		1	1	1	4	7
Total fixed charges (b)	**$ 49**	$ 102	$ 121	$ 114	$ 143	$ 159
Ratio of earnings to fixed charges	**3.8**	2.9	2.8	3.4	2.7	2.9
Preferred stock dividend requirements on a pre-tax basis	**$ 11**	$ 23	$ 28	$ 28	$ 27	$ 24
Fixed charges, as above	**49**	102	121	114	143	159
Total fixed charges and preferred stock dividends	**$ 60**	$ 125	$ 149	$ 142	$ 170	$ 183
Ratio of earnings to combined fixed charges and preferred stock dividends	**3.1**	2.4	2.3	2.8	2.3	2.5

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

Exhibit 12(d)

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES

(Millions of Dollars)

	Successor		Predecessor				
	6 Months Ended June 30, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009	2008	2007	2006
Earnings, as defined:							
Income from Continuing Operations Before Income Taxes	**$ 201**	$ 70	$ 300	$ (1,235)	$ (1,536)	$ 332	$ 310
Adjustment to reflect earnings from equity method investments on a cash basis	**(1)**		(4)	11		(5)	(2)
Loss on impairment of goodwill				1,493	1,806		
Mark to market impact of derivative instruments		2	(20)	(19)	34		
	200	72	276	250	304	327	308
Total fixed charges as below	**75**	25	158	186	199	170	161
Total earnings	**$ 275**	$ 97	$ 434	$ 436	$ 503	$ 497	$ 469
Fixed charges, as defined:							
Interest charges (a)	**$ 72**	$ 24	$ 153	$ 176	$ 184	$ 155	$ 143
Estimated interest component of operating rentals	**3**	1	5	5	5	4	4
Estimated discontinued operations interest component of rental expense				5	10	10	10
Preferred stock dividends						1	4
Total fixed charges (b)	**$ 75**	$ 25	$ 158	$ 186	$ 199	$ 170	$ 161
Ratio of earnings to fixed charges	**3.7**	3.9	2.7	2.3	2.5	2.9	2.9

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
(b) Interest on unrecognized tax benefits is not included in fixed charges.

Exhibit 12(e)

LOUISVILLE GAS AND ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES

(Millions of Dollars)

	Successor		Predecessor				
	6 Months Ended June 30, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009	2008	2007	2006
Earnings, as defined:							
Income Before Income Taxes	**$ 93**	$ 29	$ 167	$ 142	$ 131	$ 179	$ 179
Mark to market impact of derivative instruments		1	(20)	(20)	35		
	93	30	147	122	166	179	179
Total fixed charges as below	**24**	8	40	46	60	53	47
Total earnings	**$ 117**	$ 38	$ 187	$ 168	$ 226	$ 232	$ 226
Fixed charges, as defined:							
Interest charges (a)	**$ 23**	$ 8	$ 38	$ 44	$ 58	$ 50	$ 41
Estimated interest component of operating rentals	**1**		2	2	2	2	2
Preferred stock dividends						1	4
Total fixed charges (b)	**$ 24**	$ 8	$ 40	$ 46	$ 60	$ 53	$ 47
Ratio of earnings to fixed charges	**4.9**	4.8	4.7	3.7	3.8	4.4	4.8

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

Exhibit 12(f)

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES

(Millions of Dollars)

	Successor		Predecessor				
	6 Months Ended June 30, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009	2008	2007	2006
Earnings, as defined:							
Income Before Income Taxes	**$ 138**	$ 55	$ 218	$ 200	$ 226	$ 244	$ 226
Adjustment to reflect earnings from equity method investments on a cash basis	**(1)**		(4)	11		(5)	(2)
Mark to market impact of derivative instruments				1	(1)		
	137	55	214	212	225	239	224
Total fixed charges as below	**37**	11	71	79	77	59	41
Total earnings	**$ 174**	$ 66	$ 285	$ 291	$ 302	$ 298	$ 265
Fixed charges, as defined:							
Interest charges (a)	**$ 35**	$ 10	$ 69	$ 76	$ 74	$ 57	$ 39
Estimated interest component of operating rentals	**2**	1	2	3	3	2	2
Total fixed charges (b)	**$ 37**	$ 11	$ 71	$ 79	$ 77	$ 59	$ 41
Ratio of earnings to fixed charges	**4.7**	6.0	4.0	3.7	3.9	5.1	6.5

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

Exhibit 31(a)

CERTIFICATION

I, JAMES H. MILLER, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2011

/s/ James H. Miller
James H. Miller
Chairman and Chief Executive Officer
PPL Corporation

Exhibit 31(b)

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2011

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President and Chief Financial Officer
PPL Corporation

Exhibit 31(c)

CERTIFICATION

I, JAMES H. MILLER, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2011

/s/ James H. Miller

James H. Miller
President
PPL Energy Supply, LLC

Exhibit 31(d)

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2011

/s/ Paul A. Farr

Paul A. Farr
Executive Vice President
PPL Energy Supply, LLC

Exhibit 31(e)

CERTIFICATION

I, DAVID G. DECAMPLI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2011

/s/ David G. DeCampli
David G. DeCampli
President
PPL Electric Utilities Corporation

Exhibit 31(f)

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2011

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller
PPL Electric Utilities Corporation

Exhibit 31(g)

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2011

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman, President and Chief Executive Officer
LG&E and KU Energy LLC

Exhibit 31(h)

CERTIFICATION

I, S. BRADFORD RIVES, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
LG&E and KU Energy LLC

Exhibit 31(i)

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2011

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
Louisville Gas and Electric Company

Exhibit 31(j)

CERTIFICATION

I, S. BRADFORD RIVES, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
Louisville Gas and Electric Company

Exhibit 31(k)

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2011

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman, President and Chief Executive Officer
Kentucky Utilities Company

Exhibit 31(l)

CERTIFICATION

I, S. BRADFORD RIVES, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2011

/s/ S. Bradford Rives

S. Bradford Rives
Chief Financial Officer
Kentucky Utilities Company

Exhibit 32(a)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S 10-Q FOR THE QUARTER ENDED JUNE 30, 2011

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2011

/s/ James H. Miller
James H. Miller
Chairman and Chief Executive Officer
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(b)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S 10-Q FOR THE QUARTER ENDED JUNE 30, 2011

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2011

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President and Chief Financial Officer
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(c)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S 10-Q FOR THE QUARTER ENDED JUNE 30, 2011

In connection with the quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2011

/s/ James H. Miller
James H. Miller
President
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(d)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S 10-Q FOR THE QUARTER ENDED JUNE 30, 2011

In connection with the quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2011

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(e)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S 10-Q FOR THE QUARTER ENDED JUNE 30, 2011

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2011

/s/ David G. DeCampli
David G. DeCampli
President
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(f)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S 10-Q FOR THE QUARTER ENDED JUNE 30, 2011

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2011

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(g)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S 10-Q FOR THE QUARTER ENDED JUNE 30, 2011

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2011

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(h)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S 10-Q FOR THE QUARTER ENDED JUNE 30, 2011

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(i)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S 10-Q FOR THE QUARTER ENDED JUNE 30, 2011

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2011

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(j)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S 10-Q FOR THE QUARTER ENDED JUNE 30, 2011

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(k)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S 10-Q FOR THE QUARTER ENDED JUNE 30, 2011

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2011

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(l)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S 10-Q FOR THE QUARTER ENDED JUNE 30, 2011

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended June 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Kentucky Utilities Company

Condensed Financial Statements and Additional Information
(unaudited)

As of March 31, 2011 and December 31, 2010
And for the three months ended
March 31, 2011 and 2010

Index of Abbreviations

ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CATR	Clean Air Transport Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
Company	Kentucky Utilities Company
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON AG affiliate)
GAAP	U.S. Generally Accepted Accounting Principles
GHG	Greenhouse Gas
IRP	Integrated Resource Plan
KDAQ	Kentucky Division for Air Quality
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LG&E	Louisville Gas and Electric Company
LKE	LG&E and KU Energy LLC and Subsidiaries
MISO	Midwest Independent Transmission System Operator
Moody's	Moody's Investor Services, Inc.
Mwh	Megawatt hours
NAAQS	National Ambient Air Quality Standards
NO_2	Nitrogen Dioxide
NOV	Notice of Violation
NOx	Nitrogen Oxide
OVEC	Ohio Valley Electric Corporation
PPL	PPL Corporation
PCB	Polychlorinated Biphenyls
Predecessor	The Company during the time period prior to November 1, 2010
S&P	Standard & Poor's Rating Service
SCR	Selective Catalytic Reduction
SEC	U.S. Securities and Exchange Commission
Servco	LG&E and KU Services Company
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
Successor	The Company during the time period after October 31, 2010
TC2	Trimble County Unit 2
Utilities	KU and LG&E
Virginia Commission	Virginia State Corporation Commission

Kentucky Utilities Company
Condensed Financial Statements and Additional Information
(unaudited)
As of March 31, 2011 and December 31, 2010
And for the three months ended
March 31, 2011 and 2010

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Kentucky Utilities Company
Condensed Statements of Income
(unaudited)
($ millions)

	Successor Three Months Ended March 31, 2011	Predecessor Three Months Ended March 31, 2010
Operating revenues:		
Retail and wholesale	$ 395	$ 373
Wholesale to affiliate (Note 10)	11	7
Total operating revenues	406	380
Operating expenses:		
Fuel for electric generation	130	126
Power purchased	8	30
Power purchased from affiliate (Note 10)	27	24
Other operation and maintenance	89	79
Depreciation and amortization	45	34
Total operating expenses	299	293
Operating income	107	87
Equity in earnings of unconsolidated venture	1	3
Interest expense	18	2
Interest expense to affiliate	-	18
Income from continuing operations, before income taxes	90	70
Income taxes (Note 7)	32	26
Net income	$ 58	$ 44

The accompanying notes are an integral part of these condensed financial statements.

Kentucky Utilities Company
Condensed Statements of Comprehensive Income
(unaudited)
($ millions)

	Successor Three Months Ended March 31, 2011	Predecessor Three Months Ended March 31, 2010
Net income	$ 58	$ 44
Other comprehensive loss:		
Equity investee's other comprehensive loss, net of tax benefit of $0	(1)	-
Comprehensive income	$ 57	$ 44

The accompanying notes are an integral part of these condensed financial statements.

Kentucky Utilities Company
Condensed Statements of Common Equity
(unaudited)
($ millions)

	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Other Comp. Loss	Retained Earnings	Total Equity
Successor:						
Balance January 1, 2011	37,817,878	$ 308	$ 2,348	$ -	$ 35	$ 2,691
Net income	-	-	-	-	58	58
Dividends declared	-	-	-	-	(31)	(31)
Other comprehensive loss	-	-	-	(1)	-	(1)
Balance March 31, 2011	37,817,878	$ 308	$ 2,348	$ (1)	$ 62	$ 2,717

	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Accumulated Other Comp. Loss	Retained Earnings	Total Equity
Predecessor:						
Balance January 1, 2010	37,817,878	$ 308	$ 316	$ -	$ 1,328	$ 1,952
Net income	-	-	-	-	44	44
Balance March 31, 2010	37,817,878	$ 308	$ 316	$ -	$ 1,372	$ 1,996

The accompanying notes are an integral part of these condensed financial statements.

Kentucky Utilities Company
Condensed Balance Sheets
(unaudited)
($ millions)

	March 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 57	$ 3
Accounts receivable (less allowance for doubtful accounts 2011 $4; 2010, $6):		
Customer	79	90
Affiliate	-	12
Other	7	20
Unbilled revenues	73	89
Fuel, materials and supplies:		
Fuel (predominantly coal)	90	95
Other materials and supplies	43	41
Regulatory assets (Note 3)	3	9
Other intangible assets	17	22
Prepayments and other current assets	14	15
Total current assets	383	396
Investment in unconsolidated venture	31	30
Property, plant and equipment:		
Regulated utility plant	4,361	3,630
Less: accumulated depreciation	54	14
Construction work in progress	275	955
Property, plant and equipment – net	4,582	4,571
Deferred debits and other noncurrent assets:		
Regulatory assets (Note 3):		
Pension benefits	117	117
Other regulatory assets	113	105
Goodwill	607	607
Other intangible assets	168	175
Other long-term assets	57	58
Total deferred debits and other noncurrent assets	1,062	1,062
Total assets	$ 6,058	$ 6,059

The accompanying notes are an integral part of these condensed financial statements.

Kentucky Utilities Company
Condensed Balance Sheets (continued)
(unaudited)
($ millions)

Liabilities and Equity	March 31, 2011	December 31, 2010
Current liabilities:		
Notes payable to affiliate (Note 10)	$ -	$ 10
Accounts payable	73	67
Accounts payable to affiliates (Note 10)	38	45
Customer deposits	23	23
Accrued taxes	24	25
Interest payable	23	8
Regulatory liabilities (Note 3)	34	41
Other current liabilities	29	33
Total current liabilities	244	252
Long-term bonds (Note 8)	1,841	1,841
Deferred credits and other noncurrent liabilities:		
Deferred income taxes	399	376
Accumulated provision for pensions	75	113
Investment tax credits	103	104
Asset retirement obligations	54	54
Regulatory liabilities:		
Accumulated cost of removal of utility plant (Note 3)	354	348
Other regulatory liabilities (Note 3)	178	186
Other long-term liabilities	93	94
Total deferred credits and other noncurrent liabilities	1,256	1,275
Equity:		
Common stock, without par value – authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in capital	2,348	2,348
Accumulated other comprehensive loss	(1)	-
Retained earnings	62	35
Total equity	2,717	2,691
Commitments and contingent liabilities (Note 9)	-	-
Total liabilities and equity	$ 6,058	$ 6,059

The accompanying notes are an integral part of these condensed financial statements.

Kentucky Utilities Company
Condensed Statements of Cash Flows
(unaudited)
($ millions)

	Successor Three Months Ended March 31, 2011	Predecessor Three Months Ended March 31, 2010
Cash flows from operating activities:		
Net income	$ 58	$ 44
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45	34
Deferred income taxes – net	22	9
Provision for pension and postretirement benefits	7	5
Other – net	(3)	-
Change in current assets and liabilities:		
Accounts receivable	32	(14)
Unbilled revenues	16	16
Fuel, materials and supplies	3	(7)
Regulatory assets	5	31
Prepayments and other current assets	2	1
Accounts payable	3	11
Accounts payable to affiliates	(7)	3
Accrued taxes	(1)	12
Interest payable	15	-
Regulatory liabilities	(2)	-
Other current liabilities	(3)	(2)
Pension and postretirement benefits funding	(44)	(14)
Other – net	(3)	(4)
Net cash provided by operating activities	145	125
Cash flows from investing activities:		
Construction expenditures	(50)	(59)
Purchases of assets from affiliate	-	(48)
Net cash used in investing activities	$ (50)	$ (107)

The accompanying notes are an integral part of these condensed financial statements.

Kentucky Utilities Company
Condensed Statements of Cash Flows (continued)
(unaudited)
($ millions)

	Successor Three Months Ended March 31, 2011	Predecessor Three Months Ended March 31, 2010
Cash flows from financing activities:		
Changes in notes payable to affiliate – net	$ (10)	$ (17)
Payment of dividends (Note 10)	(31)	-
Net cash used in financing activities	(41)	(17)
Change in cash and cash equivalents	54	1
Cash and cash equivalents at beginning of period	3	2
Cash and cash equivalents at end of period	$ 57	$ 3

The accompanying notes are an integral part of these condensed financial statements.

Kentucky Utilities Company
Notes to Condensed Financial Statements
(unaudited)

Note 1 – Interim Financial Statements

The accompanying condensed financial statements and notes should be read in conjunction with KU's Financial Statements and Additional Information Report for 2010.

Terms and abbreviations are explained in the index of abbreviations. Dollars are in millions unless otherwise noted.

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. The Condensed Balance Sheet at December 31, 2010, is derived from the 2010 audited Balance Sheet.

The results of operations for the three months ended March 31, 2011, are not necessarily indicative of the results to be expected for the full year ending December 31, 2011, or other future periods, because results for interim periods can be disproportionately influenced by various factors, developments and seasonal variations.

Predecessor and Successor Financial Presentation

KU became an indirect wholly owned subsidiary of PPL, when PPL acquired all of the outstanding limited liability company interests in the Company's direct parent, LKE, from E.ON US Investments Corp. on November 1, 2010.

KU's condensed financial statements and accompanying footnotes have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL accounting policies, which are discussed in the Company's Financial Statements and Additional Information Report for 2010. The cost basis of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor period are not comparable to the Predecessor period.

Despite the separate presentation, the core operations of the Company have not changed. See Note 2, Acquisition by PPL, and Note 7, Goodwill and Intangible Assets, in the Company's Financial Statements and Additional Information Report for 2010, for information regarding the acquisition and the purchase accounting adjustments.

Note 2 – Summary of Significant Accounting Policies

The following accounting policy disclosures represent updates to Note 1, Summary of Significant Accounting Policies, in KU's Financial Statements and Additional Information Report for 2010 and should be read in conjunction with that discussion.

Equity Method Investment

KU's equity method investment, included in Investment in unconsolidated venture on the Condensed Balance Sheets, consists of its investment in Electric Energy, Inc ("EEI"). KU owns 20% of the common stock of EEI, which owns and operates a coal-fired plant and natural gas facility in southern Illinois. Through a power marketer affiliated with its majority owner, EEI sells its output to third parties. Although KU holds an investment interest in EEI, it is not the primary beneficiary and is therefore not consolidated into the Company's financial statements. KU's investment in EEI, accounted for under the equity method of accounting, as of March 31, 2011 and December 31, 2010, totaled $30 million. KU's direct exposure to loss as a result of its involvement with EEI is generally limited to the value of its investment.

Cost Method Investment

KU's cost method investment, included in Investment in unconsolidated venture on the Condensed Balance Sheets, consists of KU's 2.5% investment in OVEC. KU and 11 other electric utilities are owners of OVEC, which is located in Piketon, Ohio. At March 31, 2011 and December 31, 2010, KU's investment in OVEC was not significant. KU is not the primary beneficiary of OVEC; therefore, it is not consolidated into the Company's financial statements and is accounted for under the cost method of accounting.

Note 3 - 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 3, Rates and Regulatory Matters, in KU's Financial Statements and Additional Information Report for 2010.

The Company is subject to the jurisdiction of the FERC, Kentucky Commission, Virginia Commission and the Tennessee Regulatory Authority in virtually all matters related to electric utility regulation and as such, its accounting is subject to the regulated operations guidance of the FASB ASC. Given its position in the marketplace and the status of regulation in Kentucky and Virginia, there are no plans or intentions to discontinue the application of the regulated operations guidance of the FASB ASC.

KU's Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and notes payable) including certain regulatory adjustments to exclude non-regulated investments and environmental compliance plans recovered separately through the ECR mechanism. At the time base rates were determined, no recorded regulatory assets or regulatory liabilities were excluded from the return on capitalization utilized in the calculation of Kentucky base rates. Therefore, a return is earned on all Kentucky regulatory assets existing at the time base rates were determined, except where such regulatory assets were offset by associated liabilities and thus, have no net impact on capitalization.

As a result of purchase accounting, certain fair value amounts, reflecting contracts that have favorable or unfavorable terms relative to market (e.g., coal, purchased power, emission allowances), were recorded on the Condensed Balance Sheets with offsetting regulatory assets or liabilities. Prior to and after the acquisition of KU's parent, LKE, by PPL, KU recovers the cost of these contracts. KU's customer rates will continue to reflect these items at their original contracted prices.

KU's Virginia base rates are calculated based on a return on rate base. All regulatory assets and liabilities are excluded from the return on rate base utilized in the calculation of Virginia base rates.

KU's wholesale requirements rates for municipal customers are calculated based on annual updates to a rate formula that utilizes a return on rate base. All regulatory assets and liabilities are excluded from the return on rate base utilized in the development of municipal rates.

Kentucky Rate Case

In January 2010, KU filed an application with the Kentucky Commission requesting an annual increase in electric base rates of approximately 12%, or $135 million. In June 2010, KU and all of the intervenors, except the Attorney General of Kentucky, agreed to stipulations providing for an annual increase in electric base rates of $98 million and filed a request with the Kentucky Commission to approve such settlement. An Order in the proceeding was issued in July 2010, approving all the provisions in the stipulations and a return on equity range of 9.75% - 10.75%. The new rates became effective on August 1, 2010.

Virginia Rate Cases

On April 1, 2011, KU filed an application with the Virginia Commission requesting an annual increase in electric base rates for its Virginia jurisdictional customers in an amount of $9 million or approximately 14%. The proposed increase reflects a rate of return on rate base of 8% based on a return on equity of 11%, inclusion of expenditures to complete TC2 and all new FGD controls in base rates, recovery of a 2009 regulatory asset and various other adjustments to revenue and expenses for the test year ended December 31, 2010. The Company expects new rates to go into effect in January 2012. KU cannot currently predict the outcome of this proceeding.

In June 2009, KU filed an application with the Virginia Commission requesting an annual increase in electric base rates for its Virginia jurisdictional customers in an amount of $12 million or approximately 21%. The proposed increase reflected a proposed rate of return on rate base of 8.586% based on a return on equity of 12%. During December 2009, KU and the Virginia Commission Staff agreed to a Stipulation and Recommendation authorizing annual base rate revenue increases of $11 million and a return on rate base of 7.846% based on a 10.5% return on common equity. In March 2010, the Virginia Commission issued an Order approving the stipulation, with the increased rates to be put into effect as of April 1, 2010. As part of the stipulation, KU refunded $1 million in interim rate increases in excess of the ultimately approved rates.

FERC Wholesale Rate Case

In May 2010, KU submitted to the FERC the annual adjustments to the formula rates which incorporated certain proposed increases. Updated rates, including certain further adjustments from a review process involving wholesale requirements customers, became effective as of July 1, 2010, subject to certain review procedures by the wholesale requirements customers and the FERC. The review period ended in September 2010 and the rates that went into effect July 1, 2010 were determined to be final.

Regulatory Assets and Liabilities

The following regulatory assets and liabilities are included in the Condensed Balance Sheets:

	March 31, 2011	December 31, 2010
Current regulatory assets:		
Coal contracts (a)	$ 3	$ 4
Virginia levelized fuel factor (b)	-	5
Total current regulatory assets	$ 3	$ 9
Non-current regulatory assets:		
Pension benefits (c)	$ 117	$ 117
Other non-current regulatory assets:		
Storm restoration (d)	61	57
Unamortized loss on bonds (d)	12	12
Coal contracts (a)	12	14
Other (e)	28	22
Subtotal other non-current regulatory assets	113	105
Total non-current regulatory assets	$ 230	$ 222
Current regulatory liabilities:		
Coal contracts	$ 12	$ 16
DSM	7	5
ECR	10	12
Emission allowances	4	6
FAC	1	2
Total current regulatory liabilities	$ 34	$ 41

	March 31, 2011	December 31, 2010
Non-current regulatory liabilities:		
Accumulated cost of removal of utility plant	$ 354	$ 348
Other non-current regulatory liabilities:		
Coal contracts	120	126
OVEC power purchase contract	38	38
Postretirement benefits	10	10
Other (f)	10	12
Subtotal other non-current regulatory liabilities	178	186
Total non-current regulatory liabilities	$ 532	$ 534

(a) Offsetting regulatory asset for fair value purchase accounting adjustment. See the Company's Financial Statements and Additional Information Report for 2010 for information on the purchase accounting adjustments.
(b) The Virginia levelized fuel factor regulatory asset has a separate recovery mechanism generally recoverable within twelve months. In its April 2011 rate case filing, KU requested recovery of this amount over a three year period.
(c) KU recovers this asset through pension expense included in the calculation of base rates.
(d) These regulatory assets are recovered through base rates.
(e) Other regulatory assets include:
   - The Carbon Management Research Group and Kentucky Consortium for Carbon Storage contributions, an East Kentucky Power Cooperative ("EKPC") FERC transmission settlement agreement, rate case expenses, unamortized debt expense and the MISO exit costs, which are recovered through base rates.
   - The FERC jurisdictional portion of the EKPC FERC transmission settlement agreement is recovered through the annual FERC formula rate updates.
   - FERC jurisdictional pension expense, which will be requested in a future FERC rate case.
   - Offsetting regulatory asset for fair value purchase accounting adjustment for leases. See the Company's Financial Statements and Additional Information Report for 2010 for information on the purchase accounting adjustments.
   - ARO regulatory assets. When an asset with an ARO is retired, the related ARO regulatory asset will be offset against the associated ARO asset and ARO liability.
   - Virginia levelized fuel factor regulatory asset to be recovered over a three year period beginning April 1, 2011.
(f) Other regulatory liabilities includes the emission allowance purchase accounting offset, MISO exit, deferred income taxes and a change in accounting method for FERC jurisdictional spare parts. See the Company's Financial Statements and Additional Information Report for 2010 for information on the purchase accounting adjustments.

FAC

In February 2011, KU filed an application with the Virginia Commission seeking approval of an increase in its fuel cost factor beginning with service rendered in April 2011. In March, 2011, a hearing was held on KU's requested fuel factor and an Order was issued approving a revised fuel factor to be in effect beginning with service rendered on and after April 1, 2011, with recovery of the regulatory asset over a three year period.

Storm Restoration

In December 2009, a major snow storm hit KU's Virginia service area causing approximately 30,000 customer outages. During the normal 2009 Virginia Annual Information Filing ("AIF"), KU requested that the Virginia Commission establish a regulatory asset and defer for future recovery approximately $6 million in incremental operation and maintenance expenses related to the storm restoration. In March 2011, the Virginia Commission issued a Staff Report on KU's 2009 AIF stating that the Staff considers storm damage to be extraordinary, non-recurring and material to KU. The Staff Report also recommended establishing a regulatory asset for these costs, with recovery over a five year period upon approval in the next base rate case. In March 2011, a regulatory asset of $6 million was established for actual costs incurred. In April 2011, KU filed an application with the Virginia Commission requesting an annual increase in electric base rates for its Virginia jurisdictional customers including recovery of the storm costs over five years.

Note 4 – Derivative Financial Instruments

KU is subject to interest rate and commodity price risk related to on-going business operations. 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. Although the Company's policies allow for the use of interest rate swaps, as of March 31, 2011 and December 31, 2010, KU had no interest rate swaps outstanding. At March 31, 2011, KU's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

The Company does not net collateral against derivative instruments.

Energy Trading and Risk Management Activities

KU conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to manage price risk and are accounted for as non-hedging derivatives on a mark-to-market basis in accordance with the derivatives and hedging guidance of the FASB ASC.

Assets and liabilities from short-term and long-term energy trading and risk management derivative contracts were not significant at March 31, 2011 and December 31, 2010.

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, KU seeks to enter into netting agreements or require collateral such as cash deposits, letters of credit or parent company guarantees as security from counterparties. The Company uses credit ratings of 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, KU 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, 2011, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better. The Company has reserved against credit risk based on KU's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). The Company applies historical default rates within varying credit ratings over time provided by S&P or Moody's. At March 31, 2011 and December 31, 2010, credit reserves related to energy trading and risk management contracts were not significant.

The net volume of electricity based financial derivatives outstanding at March 31, 2011 and December 31, 2010, was 163,836 Mwh and 129,199 Mwh, respectively. Cash collateral posted by the Company related to the energy trading and risk management contracts was not significant at March 31, 2011 and December 31, 2010. Cash collateral related to the energy trading and risk management contracts is recorded in Prepayments and other current assets on the Condensed Balance Sheets.

KU manages the price risk of its estimated future excess economic generation capacity using market-traded forward contracts. Hedge accounting treatment has not been elected for these transactions; therefore, realized and unrealized gains and losses are included on the Condensed Statements of Income. For the three months ended March 31, 2011 and 2010, the impact of the derivative positions on energy trading and risk management activities recorded on the Condensed Statements of Income was not significant.

Credit Risk Related Contingent Features

Certain of KU's derivative contracts contain credit contingent provisions which would permit the counterparties with which KU is in a net liability position to require the transfer of additional collateral upon a decrease in KU's credit rating. Some of these provisions require KU to transfer additional collateral or permit the counterparty to terminate the contract if KU's credit rating were to fall below investment grade. Some of these provisions also allow the counterparty to require additional collateral upon each decrease in the credit rating at levels that remain above investment grade. In either case, if KU's credit rating were to fall below investment grade (i.e., below BBB- for S&P or Baa3 for Moody's) and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent provisions require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization by KU on derivative instruments in net liability positions.

Additionally, certain of KU's derivative contracts contain credit contingent provisions that require KU to provide "adequate assurance" of performance if the other party has reasonable grounds for insecurity regarding KU's performance of its obligation under the contract. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. A demand for additional assurance would typically involve negotiations among the parties.

To determine net liability positions, KU uses the fair value of each agreement. At March 31, 2011, there were no energy trading and risk management derivative contracts with credit risk related contingent features that are in a liability position. In the normal course of business, the collateral posted by KU was not significant. At March 31, 2011, a downgrade of the Company's credit rating below investment grade would have no effect on the energy trading and risk management derivative contracts or collateral required.

Note 5 - Fair Value Measurements

The FASB ASC guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, the FASB ASC guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value.

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. 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 the three months ended March 31, 2011 or 2010. Changes in market pricing, interest rate and volatility assumptions were made during the three months ended March 31, 2011 and 2010.

The fair values of cash and cash equivalents, accounts receivable, cash surrender value of key man life insurance, accounts payable and notes payable are substantially the same as their carrying values.

KU 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 discussed in Note 1, Summary of Significant Accounting Policies, in the Company's Financial Statements and Additional Information Report for 2010.

The Company classifies its derivative cash collateral balances within Level 1 based on the funds being held in a demand deposit account. The Company classifies its derivative energy trading and risk management contracts within Level 2 because it values them using prices actively quoted for proposed or executed transactions, quoted by brokers or observable inputs other than quoted prices.

KU's financial assets and liabilities as of March 31, 2011 and December 31, 2010, arising from energy trading and risk management contracts accounted for at fair value on a recurring basis, were not significant. Cash collateral related to the energy trading and risk management contracts was not significant at March 31, 2011 and December 31, 2010.

There were no Level 3 measurements for the periods ending March 31, 2011 and December 31, 2010

Financial Instruments Not Recorded at Fair Value

The carrying values and estimated fair values of KU's non-trading financial instruments follow:

	March 31, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term bonds	$ 1,841	$ 1,761	$ 1,841	$ 1,728

The fair value of these instruments was estimated using an income approach by discounting future cash flows at estimated current cost of funding rates.

Note 6 - Pension and Other Postretirement Benefit Plans

Components of Net Periodic Benefit Cost

The following tables provide the components of net periodic benefit cost for pension and other postretirement benefit plans. The tables include the costs associated with both KU employees and Servco employees who provide services to KU. Servco costs are allocated to KU based on employees' labor charges. For the three months ended March 31, 2011 and March 31, 2010, KU was allocated approximately 55% and 53% of Servco's costs, respectively.

	Three Months Ended March 31, 2011		
Pension Benefits (Successor):	KU	Servco Allocation To KU	Total KU
Service cost	$ 2	$ 2	$ 4
Interest cost	5	2	7
Expected return on plan assets	(5)	(2)	(7)
Amortization of actuarial loss	2	1	3
Net periodic benefit cost	$ 4	$ 3	$ 7

	Three Months Ended March 31, 2010		
Pension Benefits (Predecessor):	KU	Servco Allocation To KU	Total KU
Service cost	$ 2	$ 1	$ 3
Interest cost	5	2	7
Expected return on plan assets	(4)	(1)	(5)
Amortization of actuarial loss	1	1	2
Net periodic benefit cost	$ 4	$ 3	$ 7

Other Postretirement Benefits (Successor):	Three Months Ended March 31, 2011 KU	Servco Allocation To KU	Total KU
Interest cost	$ 1	$ -	$ 1
Net periodic benefit cost	$ 1	$ -	$ 1

Other Postretirement Benefits (Predecessor):	Three Months Ended March 31, 2010 KU	Servco Allocation To KU	Total KU
Interest cost	$ 1	$ -	$ 1
Amortization of prior service cost	1	-	1
Net periodic benefit cost	$ 2	$ -	$ 2

Contributions

KU made discretionary contributions to its pension plan of $43 million and $13 million in January 2011 and 2010, respectively. In addition, Servco made discretionary contributions to its pension plan of $38 million and $9 million in January 2011 and January 2010, respectively. The amount of future contributions to the pension plan will depend upon the actual return on plan assets and other factors, but the Company's intent is to fund its pension plan in a manner consistent with the requirements of the Pension Protection Act of 2006.

For the three months ended March 31, 2011, the Company made contributions to its other postretirement benefit plan of $1 million. The Company 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 tax deductible amount.

Health Care Reform

In March 2010, Health Care Reform (the Patient Protection and Affordable Care Act of 2010) was signed into law. Many provisions of Health Care Reform do not take effect for an extended period of time and many aspects of the law which are currently unclear or undefined will likely be clarified in future regulations.

Effective January 1, 2011, provisions within Health Care Reform required dependent coverage up to age 26, removed the $2 million lifetime maximum and eliminated the cost sharing for certain preventative care procedures. The impact to KU is not expected to be material.

Beginning in 2013, provisions within Health Care Reform eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, in the first quarter of 2010, KU recorded income tax expense to recognize the impact of the elimination that was not significant.

A provision within Health Care Reform beginning in 2018 is a potential excise tax on high-cost plans providing health coverage that exceeds certain thresholds. The Company has evaluated this provision of Health Care Reform on its benefit programs in consultation with its actuarial consultants and has determined that the excise tax will not have an impact on its postretirement medical plan.

The Company will continue to monitor the potential impact of any changes to the existing provisions and implementation guidance related to Health Care Reform.

Note 7 - Income Taxes

KU's federal income tax return is included in a U.S. consolidated income tax return filed by LKE's direct parent. Prior to November 1, 2010, the return was included in the consolidated return of E.ON US Investments Corp. Due to the acquisition by PPL, the return will be included in the consolidated PPL return beginning November 1, 2010, for each tax period. Each subsidiary of the consolidated tax group, including KU, 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 2007 and later years are open under the federal statute of limitations, Revenue Agent Reports for 2007-2008 have been received from the Internal Revenue Service ("IRS"), effectively closing these years to additional audit adjustments. Tax years beginning with 2007 were examined under an IRS program, 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. For 2008, the IRS allowed additional deductions in connection with the Company's application for a change in repair deductions and disallowed certain bonus depreciation claimed on the original return. The net temporary tax impact for the Company was a $12 million reduction in tax and was recorded in the second quarter of 2010. The 2009 federal return was filed in the third quarter of 2010 and the IRS issued a Partial Acceptance Letter in connection with CAP. The IRS is continuing to review storms and other repairs. No net material adverse impact is expected from these remaining areas. The short tax year beginning January 1, 2010 through October 31, 2010, is also being examined under CAP. No material items have been raised by the IRS at this time. The two month period beginning November 1, 2010 and ending December 31, 2010, is not currently under examination.

A reconciliation of KU's effective income tax rate follows:

Reconciliation of Income Taxes	Successor Three Months Ended March 31, 2011	Predecessor Three Months Ended March 31, 2010
Federal income tax on income before income taxes at statutory tax rate – 35%	$ 31	$ 25
Increase (decrease) due to:		
State income taxes – net of federal income tax benefit	3	3
Qualified production activities deduction	-	(1)
Investment and other tax credits	(1)	-
Other – net	(1)	(1)
Net increase	1	1
Income tax expense	$ 32	$ 26
Effective income tax rate	35.6%	37.1%

Unrecognized Tax Benefits

KU had no material changes in unrecognized tax benefits since December 31, 2010, and does not expect any material changes to occur in unrecognized tax benefits during the next 12 months.

Note 8 –Debt

As summarized below, long-term debt consisted of first mortgage bonds and secured pollution control bonds.

	March 31, 2011	December 31, 2010
Secured first mortgage bonds	$ 1,500	$ 1,500
Pollution control revenue bonds, collateralized by first mortgage bonds	351	351
Fair value adjustment from purchase accounting	1	1
Unamortized discount	(11)	(11)
Total long-term debt	1,841	1,841
Less current portion	-	-
Long-term debt, excluding current portion	$ 1,841	$ 1,841

In November 2010, KU issued first mortgage bonds totaling $1,500 million and used the proceeds to repay loans from a PPL subsidiary and for general corporate purposes. The first mortgage bonds were issued at a discount.

The first mortgage bonds were issued by KU via transactions not requiring registration under the Securities Act of 1933. KU entered into a registration rights agreement in which it agreed to file a registration statement with the SEC relating to an offer to exchange the first mortgage bonds for publicly tradable securities having substantially identical terms. If ultimate registration and/or certain milestones are not completed by certain dates in mid- and late 2011, the Company has agreed to pay liquidated damages to the bondholders. The liquidated damages would total 0.25% per annum of the principal amount of the bonds for the first 90 days and 0.50% per annum of the principal amount thereafter until the conditions described above have been cured. In April 2011, KU filed a registration statement on Form S-4 with the SEC, pursuant to the registration rights agreements described above.

At March 31, 2011, KU had an aggregate $351 million of outstanding pollution control indebtedness, of which $96 million is in the form of insured auction rate securities wherein interest rates are reset every 35 days via an auction process. The credit ratings of the monoline bond insurers have been reduced to levels below that of the Company's rating due to exposures relating to insurance of sub-prime mortgages. As a result, the debt ratings of the Company's insured pollution control bonds are based on the Company's senior secured debt rating and are not influenced by the monoline bond insurer ratings. When a failed auction occurs, the interest rate is set pursuant to a formula stipulated in the indenture.

The average annualized interest rates on the auction rate bond follows:

Successor	Predecessor
Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
0.37%	0.27%

The instruments governing the auction rate bond permit KU to convert the bond 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.

KU participates in an intercompany money pool agreement wherein LKE and/or LG&E make funds available to KU at market-based rates (based on highly rated commercial paper issues) of up to $400 million. Details of the balances were as follows:

	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
March 31, 2011	$ 400	$ -	$ 400	N/A
December 31, 2010	400	10	390	0.25%

As of March 31, 2011, the Company maintained a $400 million revolving line of credit with a group of banks maturing in December 2014. The revolving line of credit allows KU to issue letters of credit or borrow funds up to $400 million. Outstanding letters of credit reduce the facility's available borrowing capacity. The Company pays the banks an annual commitment fee based on current bond ratings on the unused portion of the commitment. At March 31, 2011, there were no borrowings outstanding under this facility. However, letters of credit totaling $198 million have been issued under this facility to support outstanding tax exempt bonds. This credit agreement contains financial covenants requiring the borrower's debt to total capitalization ratio to not exceed 70%, as calculated pursuant to the credit agreement, and other customary covenants.

On April 29, 2011, KU entered into a new $198 million letter of credit agreement that will be used to issue letters of credit to support outstanding tax exempt bonds. The facility matures in April 2014. On

May 2, 2011, letters of credit totaling $198 million were issued under the new agreement replacing the letters of credit previously issued under KU's credit facility.

KU was in compliance with all debt covenants at March 31, 2011 and December 31, 2010.

Note 9 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 3, Rates and Regulatory Matters), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in KU's Financial Statements and Additional Information Report for 2010 (including, but not limited to, Note 10, Related Party Transactions; Note 3, Rates and Regulatory Matters; and Note 11, Subsequent Events; to the financial statements of the Company contained therein).

Energy Purchases and Other Commitments

OVEC Power

Pursuant to a power purchase agreement with OVEC, extended in February 2011, to 2040, pending regulatory approvals, the Company may be conditionally responsible for a 2.5% pro-rata share of certain obligations of OVEC under defined circumstances. These contingent liabilities may include unpaid OVEC indebtedness as well as shortfall amounts in certain excess decommissioning costs and postretirement benefits other than pension. KU's contingent proportionate share of OVEC's outstanding debt was $34 million at March 31, 2011. See Note 2, Summary of Significant Accounting Policies, for further information.

Legal Matters

KU is involved in legal proceedings, claims and litigation in the ordinary course of business and cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

Construction Program

KU had approximately $107 million of commitments in connection with its construction program at March 31, 2011.

In June 2006, KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price. During 2009 and 2010, KU received several contractual notices from the TC2 construction contractor asserting historical force majeure and excusable event claims for a number of adjustments to the contract price, construction schedule, commercial operations date, liquidated damages or other relevant provisions. In September 2010, KU and the construction contractor agreed to a settlement to resolve the force majeure and excusable event claims occurring through July 2010, under the TC2 construction contract, which settlement provided for a limited, negotiated extension of the contractual commercial operations date and/or relief from liquidated damage calculations. With limited exceptions the Company took care, custody and control of TC2 on January 22, 2011, and has dispatched the unit to meet customer demand since that date. KU and the contractor agreed to a further amendment of the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. KU cannot currently estimate the ultimate outcome of these matters.

TC2 CCN Application and Transmission Matters

KU's and LG&E's CCN for a transmission line associated with the TC2 construction has been challenged by certain property owners in Hardin County, Kentucky. Certain proceedings relating to CCN challenging and federal historic preservation permit requirements have concluded with outcomes in the Utilities' favor.

With respect to the remaining on-going dispute, KU obtained various successful rulings during 2008 at the Hardin County Circuit Court confirming its condemnation rights. In August 2008, several landowners appealed such rulings to the Kentucky Court of Appeals and received a temporary stay preventing KU from accessing their properties. In May 2010, the Kentucky Court of Appeals issued an Order affirming the Hardin Circuit Court's finding that KU had the right to condemn easements on the properties. In May 2010, the landowners filed a petition for reconsideration with the Court of Appeals. In July 2010, the Court of Appeals denied that petition. In August, 2010, the landowners filed for discretionary review of that denial by the Kentucky Supreme Court. In March 2011, the Kentucky Supreme Court denied the landowners' request for discretionary review.

<u>Regulatory Issues</u>

Market-Based Rate Authority

In July 2009, the FERC issued an order approving KU's September 2008 tri-annual application for updated market-based rate authority. During July 2009, affiliates of KU 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 KU is no longer deemed to have market power in such control area and that historical restrictions on KU sales into that area is no longer applicable.

Integrated Resource Planning

IRP regulations require major utilities to make triennial IRP filings with the Kentucky Commission. In April 2011, KU and LG&E filed their 2011 joint IRP with the Kentucky Commission. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information. Pursuant to a December 2008 Order, KU will file with the Virginia Commission the 2011 joint IRP by September 1, 2011, along with certain supplemental information as required by this Order. Impending environmental regulation could result in the retirements of older, smaller coal-fired units and therefore, the IRP assumes potential retirements of approximately 800 megawatts of coal-fired capacity with replacement by combined cycle gas units in 2016. In addition the IRP assumes approximately 500 megawatts of peak demand reductions by 2017, via existing or expanded demand side management or energy efficiency programs. Implementation of the major findings of the IRP is subject to further Company analysis and decision-making and further regulatory approvals.

Mandatory Reliability Standards

As a result of the EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007 and authority was delegated to various Regional Reliability Organizations ("RROs") by the North American Electric Reliability Corporation ("NERC"), which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day, as well as non-monetary penalties, depending upon the circumstances of the violation. The Utilities are members of the SERC Reliability Corporation ("SERC"), which acts as their RRO. The Utilities have continued to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans. The resolution of a number of these potential violation reports is pending. Any regional reliability entity determination concerning resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC. Therefore, the Utilities are unable to estimate the outcome of these matters. Additionally, the Utilities have one open self-report which has been the subject of a settlement with the SERC. This settlement was for no penalty but still requires FERC approval before becoming final. Mandatory reliability standard settlements commonly also include non-penalty elements, including compliance steps and mitigation plans. While the Utilities believe they are in compliance with the mandatory reliability standards, events of potential non-compliance may be identified from time-to-time. The Utilities cannot predict such potential violations or the outcome of self-reports described above.

Other

In February 2006, the Kentucky Commission initiated an administrative proceeding to consider the requirements of the federal EPAct 2005, Subtitle E Section 1252, Smart Metering, which concerns time-based metering and demand response, and Section 1254, Interconnections. The EPAct 2005 requires each state regulatory authority to conduct a formal investigation and issue a decision on whether or not it is appropriate to implement certain Section 1252 standards within eighteen months after the enactment of the EPAct 2005 and to commence consideration of Section 1254 standards within a year after the enactment of the EPAct 2005. Following a public hearing with all Kentucky jurisdictional electric utilities, in December 2006, the Kentucky Commission issued an Order in this proceeding indicating that the EPAct 2005 Section 1252 and Section 1254 standards should not be adopted. However, all the Kentucky Commission jurisdictional utilities are required to file real-time pricing pilot programs for their large commercial and industrial customers. KU and LG&E developed real-time pricing pilots for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot programs proposed by KU and LG&E for implementation for their large commercial and industrial customers. The tariff was filed in October 2008, with an effective date of December 1, 2008. KU and LG&E file annual reports on the program within 90 days of each plan year-end for the three-year pilot period.

Environmental Matters

The Company's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. As indicated below and summarized at the conclusion of this section, evolving environmental regulations will likely increase the level of capital and operating and maintenance expenditures incurred by the Company during the next several years. Based upon prior regulatory precedent, the Company believes that many costs of complying with such pending or future requirements would likely be recoverable under the ECR or other potential cost-recovery mechanisms, but the Company can provide no assurance as to the ultimate outcome of such proceedings before the regulatory authorities.

General Environmental Proceedings

From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include a prior Section 114 information request from the EPA relating to new-source review issues at KU's Ghent unit 2; completed settlement with state regulators regarding compliance with particulate limits in the air permit for KU's Tyrone generating station; remediation obligations or activities for or other risks relating to elevated PCB levels at existing properties; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; and on-going claims regarding the GHG emissions from the Company's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the Company's operations.

Air

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 million British thermal units 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.

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. The remand of the CAIR results in some uncertainty with respect to certain other EPA or state programs and proceedings and the Utilities' compliance plans relating thereto due to the interconnection of the CAIR with such associated programs.

In January 2010, the EPA proposed a revised NAAQS for ozone which would increase the stringency of the standard. In addition, the EPA published final revised NAAQS standards for NO_2 and SO_2 in February 2010 and June 2010, respectively, which are more stringent than previous standards. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the revised NAAQS standards, KU's power plants are potentially subject to requirements for additional reductions in SO_2 and NOx emissions.

In August 2010, the EPA issued the proposed CATR, which serves to replace the CAIR. The CATR provides for a two-phase SO_2 reduction program with Phase I reductions due by 2012 and Phase II reductions due by 2014. The CATR provides for NOx reductions in 2012, but the EPA advised that it is studying whether additional NOx reductions should be required for 2014. The CATR is more stringent than the CAIR as it accelerates certain compliance dates and provides for only intrastate and limited interstate trading of emission allowances. In addition to its preferred approach, the EPA is seeking comment on an alternative approach which would provide for individual emission limits at each power plant. The EPA has announced that it will propose additional "transport" rules to address compliance with revised NAAQS standards for ozone and particulate matter which will be issued by the EPA in the future, as discussed below.

Hazardous Air Pollutants:

As provided in 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 February 2008, a federal appellate court issued a decision vacating the CAMR. In March 2011, the EPA released the proposed utility Maximum Achievable Control Technology rule to replace the CAMR. The proposed rule would establish standards for hazardous air pollutants emitted by power plants including mercury, other heavy metals, and acid gases. The emissions limitations specified in the proposed rule are stringent, requiring a 91% reduction in the case of mercury emissions. Upon promulgation of a final rule, facilities would have a short three-year period to comply with the new requirements, with the possibility of a one-year extension from the state. The Company will be unable to determine the exact impact on Company operations until such time as a final rule is promulgated by the EPA.

Acid Rain Program:

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 Clean Air Act also contains 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 the CAIR could potentially impact regional haze SIPs. See Ambient Air Quality above for a discussion of CAIR-related uncertainties.

KU submitted an analysis of the visibility impacts of its Kentucky BART-eligible sources to the KDAQ. None of KU's plants were determined to have a significant regional haze impact.

Ghent Opacity NOV:

In September 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's operating rules relating to opacity during June and July of 2007 at Units 1 and 3 of KU's Ghent generating station. The parties have met on this matter and KU has received no further communications from the EPA. The Company is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result.

Ghent New Source Review NOV:

In March 2009, the EPA issued an NOV alleging that KU violated certain provisions of the Clean Air Act's rules governing new source review and prevention of significant deterioration by installing FGD and SCR controls at its Ghent generating station without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. In December 2009, the EPA issued a Section 114 information request seeking additional information on this matter. In March 2010, the Company received an EPA settlement proposal providing for imposition of additional permit limits and emission controls and anticipates continued settlement negotiations with the EPA. Negotiations between the EPA and KU are ongoing. Depending on the provisions of a final settlement or the results of litigation, if any, resolution of this matter could involve significant increased operating and capital expenditures. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination on the Company's financial position or results of operations.

Installation of Pollution Controls:

Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's strategy for its Phase II SO_2 requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emission allowances and fuel switching to defer certain additional capital expenditures and continue to evaluate improvements to further reduce SO_2 emissions. KU believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner. KU expects to incur additional capital expenditures currently approved in its ECR plans totaling approximately $500 million during the 2011 through 2013 time period to achieve emissions reductions and manage coal combustion residuals. Monthly recovery is subject to periodic review by the Kentucky Commission.

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. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order upholding the permit. The environmental groups petitioned the EPA to object to the state permit and subsequent permit revisions. In determinations made in September 2008 and June 2009, the EPA rejected most of the environmental groups' claims but identified three permit deficiencies which the KDAQ addressed by revising the permit. In August 2009, the EPA issued an Order denying the remaining claims with the exception of two additional deficiencies which the KDAQ was directed to address. The EPA determined that the proposed permit subsequently issued by the KDAQ satisfied the conditions of the EPA Order although the agency recommended certain enhancements to the administrative record. In January 2010, the KDAQ issued a final permit revision incorporating the proposed changes to address the two EPA objections. In March 2010, the Sierra Club submitted a petition to the EPA to object to the permit revision, which is now pending before the EPA. The Company believes that the final permit as revised should not have a material adverse effect on its financial condition or results of operations. However, until the EPA issues a final ruling on the pending petition and all applicable appeals have been exhausted, the Company cannot predict the final outcome of this matter.

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, 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 met 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. In Copenhagen, the U.S. made a nonbinding commitment to, among other things, seek to reduce GHG emissions to 17% below 2005 levels by 2020 and provide financial support to developing countries. The United States and other nations met in Cancun, Mexico, in December 2010 to continue negotiations toward a binding agreement.

GHG Legislation:

KU 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 was a comprehensive energy bill containing the first-ever nation-wide GHG cap and trade program. The bill provided 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 have initially been allocated at no cost to the electric utility sector, with this allocation gradually declining to 7% in 2029 and zero thereafter. The bill would have also established a renewable electricity standard requiring utilities to meet 20% of their electricity demand through renewable energy and energy efficiency by 2020. The bill contained additional provisions regarding carbon capture and sequestration, clean transportation, smart grid advancement, nuclear and advanced technologies and energy efficiency.

In September 2009, the Clean Energy Jobs and American Power Act, which was largely patterned on the House legislation, was introduced in the U.S. Senate. The Senate bill raised the emissions reduction target for 2020 to 20% below 2005 levels and did not include a renewable electricity standard. While the initial bill lacked detailed provisions for the allocation of emissions allowances, a subsequent revision incorporated allowance allocation provisions similar to the House bill. Although Senators Kerry and Lieberman and others worked to reach a consensus on GHG legislation, no bill passed the Senate in 2010. The Company is closely monitoring the progress of pending energy legislation, but the prospect for passage of comprehensive GHG legislation in 2011 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 endanger public health and welfare, which is an initial rulemaking step under the Clean Air Act. A final endangerment finding was issued in December 2009. 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 are required to submit annual reports commencing with calendar year 2010. In May 2010, the EPA issued a final GHG “tailoring” rule, effective January 2011, requiring new or modified sources with GHG emissions equivalent to at least 75,000 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 rule. The final rule will apply to new and modified power plants beginning in January 2011. The Company is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted through legislation or regulations. In December 2010, the EPA announced that it plans to promulgate GHG New Source Performance Standards for power plants, including both new and existing facilities. A proposed rule is expected by July 2011, while a final rule is expected by May 2012. In the absence of either a proposed or final regulation, KU is unable to assess the potential impact of any future regulation.

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, a three judge panel of 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. In March 2010, the court vacated the opinion of the three-judge panel and granted a motion for rehearing but subsequently denied the appeal due to the lack of a quorum. The appellate ruling leaves in effect the lower court ruling dismissing the plaintiffs' claims. In January 2011, the Supreme Court denied petitioner's petition for review, which effectively brings the case to an end. The Comer complaint alleged that GHG emissions from the defendants' facilities contributed to global warming which increased the intensity of Hurricane Katrina. E.ON AG, the former indirect parent of the Utilities, was named as a defendant in the complaint, but was not a party to the proceedings due to the failure of the plaintiffs to pursue service under the applicable international procedures. KU continues to monitor relevant GHG litigation to identify judicial developments that may be potentially relevant to operations.

Water/Waste

Ash Ponds and Coal-Combustion Byproducts:

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 KU, 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 KU's impoundments, which the EPA found to be in satisfactory condition. In June 2010, the EPA published proposed regulations for coal combustion byproducts handled in landfills and ash ponds. The EPA has proposed two alternatives: (1) regulation of coal combustion byproducts in landfills and ash ponds as a hazardous waste or (2) regulation of coal combustion byproducts as a solid waste with minimum national standards. Under both alternatives, the EPA has proposed safety requirements to address the structural integrity of ash ponds. In addition, the EPA will consider potential refinements of the provisions for beneficial reuse of coal combustion byproducts.

Water Discharges and PCB Regulations:

In March 2011, the EPA released a proposed cooling water intake structure rule pursuant to Section 316(b) of the Clean Water Act. The proposed rule would require a case-by-case review to identify appropriate measures to mitigate the impact of cooling water intake structures on aquatic life. Mitigation measures required as a result of the review could range from use of smaller mesh screens on intake structures to more costly measures such as construction of cooling towers. The exact impact of the rule will depend on the provisions contained in the final rule promulgated by the EPA and the subsequent implementation of the rule by the states. The EPA has also announced plans to develop revised effluent limitation guidelines governing discharges from power plants. The EPA has further announced plans to develop revised standards governing the use of PCB in electrical equipment. The Company is monitoring these ongoing regulatory developments, but will be unable to determine the impact until such time as new rules are finalized.

TC2 Water Permit:

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County generating station. In October 2010, the hearing officer issued a report and recommended Order providing for dismissal of the claims raised by the petitioners. In December 2010, the Secretary issued a final Order dismissing all claims and upholding the permit which petitioners subsequently appealed to Trimble County Circuit Court.

Basin Seepage or Groundwater Infiltration:

Seepages or groundwater infiltration has been detected at wastewater basins or landfills at various KU plants. KU has completed or is completing assessments of seepages at various facilities and is working with agencies to implement abatement measures for those seepages, where required. The potential cost to address identified seepages or other seepages at KU's plants is not now determinable, but could be significant.

Superfund

KU is a potentially responsible party at several sites listed by the EPA under the federal Superfund program. Clean-up actions have been or are being undertaken at all of these sites, the costs of which has not been significant to the Company. However, should the EPA require different or additional measures in the future, or should KU's share of costs at multi-party sites increase significantly more than currently expected, the costs to KU could be significant.

KU is remediating or has completed the remediation of several sites that were not addressed under a regulatory program such as Superfund, but for which the Company may be liable for remediation. These include a number of former coal gas manufacturing facilities in Kentucky previously owned or operated or currently owned by KU. There are additional sites, formerly owned or operated by KU for which the Company lacks information on current site conditions and is therefore unable to predict what, if any, potential liability it may have.

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which the Company currently lacks information, the costs of remediation and other liabilities could be substantial. It also could incur other non-remediation costs at sites included in current consent orders or other contaminated sites, the costs of which are not now determinable but could be significant.

Impact of Pending and Future Environmental Developments

As a company with significant coal-fired generating assets, KU will likely be substantially impacted by pending or future environmental rules or legislation requiring mandatory reductions in GHG emissions or other air emissions, imposing more stringent standards on discharges to waterways, or establishing additional requirements for handling or disposal of coal combustion byproducts. These evolving environmental regulations will likely require an increased level of capital expenditures and increased incremental operating and maintenance costs by the Company over the next several years. Due to the uncertain nature of the final regulations that will ultimately be adopted by the EPA, including the reduction targets and the deadlines that will be applicable, the Company cannot finalize estimates of the potential compliance costs, but should the final rules incorporate additional emission reduction requirements, require more stringent emissions controls or implement more stringent byproducts storage and disposal practices, such costs will likely be significant. With respect to NAAQS, CATR, utility Maximum Achieveable Control Technology rule and coal combustion byproducts developments, based upon a preliminary analysis of proposed regulations, the Company may be required to consider actions such as upgrading existing emissions controls, installing additional emissions controls, upgrading byproducts disposal and storage and possible early replacement of coal-fired units. Capital expenditures for KU associated with such actions are preliminarily estimated to be in the $1.5 to $1.75 billion range over the next ten years, although final costs may substantially vary. With respect to potential developments in water discharge, including the recently proposed Section 316(b) cooling water intake rule and the expected revisions to the effluent guidelines, revised PCB standards or GHG initiatives, costs in such areas cannot be estimated due to the preliminary status or uncertain outcome of such developments, but would be in addition to the above amount and could be substantial. Ultimately, the precise impact on the Company’s operations of these various environmental developments cannot be determined prior to the finalization of such requirements. Based upon prior regulatory precedent, the Company believes that many costs of complying with such pending or future requirements would likely be recoverable under the ECR or other potential cost-recovery mechanisms, but the Company can provide no assurance as to the ultimate outcome of such proceedings before the regulatory authorities.

Note 10 – Related Party Transactions

KU and subsidiaries of LKE and PPL engage in related party transactions. Transactions between KU and LKE subsidiaries are eliminated on consolidation of LKE. Transactions between KU and PPL subsidiaries are eliminated on consolidation of PPL. 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 and Virginia Commission regulations.

Intercompany Wholesale Sales and Purchases

KU and LG&E jointly dispatch their generation units with the lowest cost generation used to serve their retail native load. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail native load and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are recorded as intercompany wholesale sales and purchases and are recorded by each company at a price equal to the seller's fuel cost. Savings realized from purchasing electricity intercompany instead of generating from their own higher costs units or purchasing from the market are shared equally between the Utilities. The volume of energy each company has to sell to the other is dependent on its native load needs and its available generation.

These sales and purchases are included in the Condensed Statements of Income as Wholesale to affiliate, and Power purchased from affiliate. KU's intercompany electric revenues and power purchased expenses were as follows:

	Successor	Predecessor
	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Electric operating revenues from LG&E	$ 11	$ 7
Power purchased from LG&E	27	24

Interest Charges

See Note 8, 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.

Interest paid to LKE on the money pool arrangement was not significant for the three months ended March 31, 2011 and for the three months ended March 31, 2010. There were no loans from Fidelia during the three months ended March 31, 2011. Interest expense related to loans from Fidelia was $18 million for the three months ended March 31, 2010.

Dividends

In March 2011, the Company paid dividends of $31 million to its sole shareholder, LKE. For the period ended March 31, 2010 no dividends were paid.

Other Intercompany Billings

Servco provides the Company with a variety of centralized administrative, management and support services. Associated charges include payroll taxes paid by Servco on behalf of KU, labor and burdens of Servco employees performing services for KU, coal purchases and other vouchers paid by Servco on behalf of KU. The cost of these services is directly charged to the Company, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and/or other statistical information. These costs are charged on an actual cost basis.

In addition, the Utilities provide services to each other and to Servco. Billings between the Utilities 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 KU to Servco include cash received by Servco on behalf of KU, tax settlements and other payments made by the Company on behalf of other non-regulated businesses which are reimbursed through Servco.

Intercompany billings to and from KU were as follows:

	Successor	Predecessor
	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Servco billings to KU	$ 49	$ 50
LG&E billings to KU	27	8

KU billings to Servco were not significant for the three months ended March 31, 2011 and March 31, 2010.

Intercompany Balances

The Company had the following balances with its affiliates:

	March 31, 2011	December 31, 2010
Accounts receivable from LKE	$ -	$ 12
Accounts payable to Servco	14	23
Accounts payable to LG&E	17	22
Accounts payable to LKE	7	-
Notes payable to LKE	-	10

Note 11 – Subsequent Events

Subsequent events have been evaluated through May 9, 2011, the date of issuance of these statements and these statements contain all necessary adjustments and disclosures resulting from that evaluation.

On May 2, 2011, KU a filed notice of intent to file an ECR plan with the Kentucky Commission. The plan will be filed on or after June 1, 2011.

On April 29, 2011, KU entered into a new $198 million letter of credit agreement that will be used to issue letters of credit to support outstanding tax exempt bonds. The facility matures in April 2014. On May 2, 2011, letters of credit totaling $198 million were issued under the new agreement replacing the letters of credit previously issued under KU's credit facility. In May 2011, one national rating agency downgraded the long-term rating of four of KU's pollution control bonds by one notch in connection with the substitution of the letters of credit enhancing these four bonds.

On April 22, 2011 KU filed a Form S-4, Registration Statement, with the SEC, as agreed in its first mortgage bonds registration rights agreement. The Form S-4 relates to an offer to exchange the first mortgage bonds with registered, publicly tradable securities.

On April 21, 2011, KU and LG&E filed their 2011 joint IRP with the Kentucky Commission.

On April 1, 2011, KU filed a rate adjustment request with the Virginia Commission. If approved, the $9 million base rate increase, an increase of approximately 14%, would be effective January 2012. Inclusive in that request is the recovery over five years of $6 million in expenses from the December 2009 winter storm that affected KU's Virginia jurisdiction.

Forward-Looking Information

Statements contained in this report concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although KU believes that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in Risk Factors in KU's Financial Statements and Additional Information Report for 2010 and in Management's Discussion and Analysis in this report, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- continuing ability to recover fuel and natural gas supply costs in a timely manner;
- weather conditions affecting generation, customer energy use and operating costs;
- operation, availability and operating costs of existing generation facilities;
- transmission and distribution system conditions and operating costs;
- potential laws or regulations to reduce emissions of GHGs;
- collective labor bargaining negotiations;
- the outcome of litigation against KU;
- potential effects of threatened or actual terrorism, war or other hostilities or natural disasters;
- the commitments and liabilities against KU;
- market demand and prices for energy, capacity, transmission services, emission allowances and delivered fuel;
- competition in retail and wholesale power markets;
- liquidity of wholesale power markets;
- defaults by counterparties under energy, fuel or other power product contracts;
- market prices of commodity inputs for ongoing capital expenditures;
- capital market conditions, including the availability of capital or credit, changes in interest rates, and decisions regarding capital structure;
- the fair value of debt and equity securities and the impact on defined benefit costs and resultant cash funding requirements for defined benefit plans;
- interest rates and their effect on pension and retiree medical liabilities;
- volatility in or the impact of other changes in financial or commodity markets and economic conditions;
- the profitability and liquidity, including access to capital markets and credit facilities of KU;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- current and future environmental conditions, regulations and requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
- political, regulatory or economic conditions in states, regions or countries where KU conducts business;
- receipt of necessary governmental permits, approvals and rate relief;
- new state or federal legislation, including new tax, environmental, health care or pension-related legislation;
- state or federal regulatory developments;

- the outcome of any rate cases by KU at the Kentucky Commission, the FERC, the Virginia Commission or the Tennessee Regulatory Authority;
- the impact of any state or federal investigations applicable to KU and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures; and
- business or asset acquisitions and dispositions.

Any such forward-looking statements should be considered in light of such important factors.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for KU to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and KU undertakes no obligation to update the information contained in such statement to reflect subsequent developments or information.

Management's Discussion and Analysis

Overview

Management's Discussion and Analysis should be read in conjunction with KU's condensed financial statements and the accompanying notes. Terms and abbreviations are explained in the Index of Abbreviations. Dollars are in millions unless otherwise noted.

KU, headquartered in Lexington, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. Refer to the Business section in KU's Financial Statements and Additional Information Report for 2010 for further information regarding the business. See Overview in Management's Discussion and Analysis in the Company's Financial Statements and Additional Information Report for 2010 for a discussion of KU's strategy and the risks and challenges that it faces in its business. See Forward-Looking Information, Note 9, Commitments and Contingencies, and the remainder of items in Management's Discussion and Analysis in this report and Risk Factors and Management's Discussion and Analysis in the Company's Financial Statements and Additional Information Report for 2010, for more information concerning the material risks and uncertainties that KU faces in its business and with respect to its future earnings and cash flows.

Predecessor and Successor Financial Presentation

KU's Condensed Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010, and are labeled as Predecessor or Successor, as applicable. KU applied push-down accounting to account for the acquisition. For accounting purposes only, push-down accounting is considered to create a new entity due to new cost basis assigned to assets, liabilities and equity as of the acquisition date. Consequently, certain results of KU's operations and cash flows for the Predecessor period in 2010 and the Successor periods in 2010 and 2011 are not consistent; however, management does not believe that the core operations of the Company have changed as a result of the acquisition.

Environmental Matters

General

Protection of the environment is a major priority for KU and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to KU's air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the costs of compliance or alleged non-compliance cannot be predicted with certainty but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc., and may impact the costs of their products or their demand for KU's services.

Climate Change

Recent developments continue to indicate an increased possibility of significant climate change or GHG legislation or regulation, at the international, federal, regional and state levels. During December 2009, as part of the United Nation's Copenhagen Accord, the U.S. agreed to a non-binding goal to reduce GHG emissions to 17% below 2005 levels by 2020. Additionally, during 2009, the U.S. House of Representatives passed comprehensive GHG legislation, which included a number of measures to limit GHG emissions and achieve GHG emission reduction targets below 2005 levels of 3% by 2012, 17% by 2020 and 83% by 2050. Similar legislation has been considered in the U.S. Senate, but the prospects for passage remain uncertain. In late 2009, the EPA issued a final endangerment finding relating to mobile sources of GHGs and a GHG reporting requirement beginning in 2010. In 2010, the EPA issued a final rule requiring implementation of best available control technology for GHG emissions from new or modified power plants, effective January 2011. In December 2010, the EPA announced that it intends to propose New Source Performance Standards addressing GHG emissions from new and existing power plants, with a proposed rule expected in July 2011. In 2011, legislation was introduced in both the House and Senate which seeks to bar the EPA from regulating GHG emissions under the existing authority of the Clean Air Act, but, to date, no such legislation has been enacted. Finally, a number of U.S. states, although not currently including Kentucky, have adopted GHG-reduction legislation or regulation of various sorts. The developing GHG initiatives include a number of differing structures and formats, including direct limitations on GHG sources, issuance of allowances for GHG emissions, cap-and-trade programs for such allowances, renewable or alternative generation portfolio standards and mechanisms relating to demand reduction, energy efficiency, smart-grid, transmission expansion, carbon-sequestration or other GHG-reducing efforts. While the final terms and impacts of such initiatives cannot be estimated, KU, a primarily coal-fired utility, could be highly affected by such proceedings.

Other Environmental Regulatory Initiatives

The EPA has proposed or announced that it intends to propose, and in some cases has finalized, a number of additional environmental regulations that could substantially impact utilities with coal-fired generating assets. These regulatory initiatives include revisions to the ambient air quality standards for SO_2, NO_2, ozone and particulate matter 2.5 microns in size or less, rules aimed at mitigating the interstate transport of SO_2 and NOx, a program governing emissions of hazardous air pollutants from utility generating units, a program for the management of coal combustion residuals, revised effluent guidelines for utility generating facilities and standards for cooling water intake structures. Such requirements could potentially mandate upgrade of existing emission controls, installation of additional emission controls such as FGDs, SCRs, fabric filter bag houses, activated carbon injection, wet electrostatic precipitators, closure of ash ponds and retrofit of landfills, installation of cooling towers, deployment of new water treatment technologies and retirement of facilities that cannot be retrofitted on a cost effective basis.

The cost to KU and the effect on KU's business of complying with potential GHG restrictions and other environmental regulatory initiatives will depend upon provisions of any final rules and how the rules are implemented by the EPA. Some of the design elements which may have the greatest effect on KU include (a) the required levels and timing of emissions caps, discharge limits or similar standards, (b) the sources covered by such requirements, (c) transition and mitigation provisions, such as phase-in periods, free allowances or price caps, (d) the availability and pricing of relevant mitigation or control technologies, goods or services and (e) economic, market and customer reaction to electricity price and demand changes due to environmental concerns.

Ultimately, environmental matters or potential environmental matters can represent an important element of current or future potential capital requirements, future unit retirement or replacement decisions, supply and demand for electricity, operating and maintenance expenses or compliance risks for the Company. Based on prior regulatory precedent, KU currently anticipates that many of such direct costs may be recoverable by KU through rates or other regulatory mechanisms, particularly with respect to coal-related generation, but the availability, timing or completeness of such rate recovery cannot be assured. Ultimately, climate change and other environmental matters will likely increase the level of capital expenditures and operating and maintenance costs incurred by the Company during the next several years. With respect to NAAQS, CATR, CAMR replacement and coal combustion byproducts developments, based on a preliminary analysis of proposed regulations, the Company may be required to consider actions such as upgrading existing emissions controls, installing additional emissions controls, upgrading byproducts disposal and storage and possible early replacement of coal-fired units. In order to comply with the coal combustion residual rules and the above referenced air rules, capital expenditures for KU are preliminarily estimated to be in the $1.5 to $1.75 billion range over the next ten years, although final costs may substantially vary. This estimate does not include compliance with GHG rules or contemplated water-related environmental changes, including the recently proposed Section 316(b) cooling water intake rule and the expected revisions to the effluent guidelines. See Risk Factors and Note 9, Commitments and Contingencies, for further information.

Results of Operations

The following discussion begins with a description of key factors that management expects may impact future earnings and continues with a summary of KU's earnings. This section ends with Statement of Income Analysis, which includes explanations of significant changes in principal items in KU's Condensed Statements of Income, comparing the three months ended March 31, 2011, with the same period in 2010.

As a result of the November 1, 2010 acquisition of KU's parent, LKE, by PPL, KU's results for the three months ended March 31, 2011 are on a different basis of accounting than its results for the three months ended March 31, 2010. When discussing KU's results of operations for 2011, compared with 2010, material differences resulting from the different bases of accounting will be isolated for purposes of comparability. See Predecessor and Successor Financial Presentation for further information.

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations, and as such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future operating results. Due to weather, revenue and earnings are generally highest during the first and third quarters and lowest in the second quarter.

Outlook

KU projects higher earnings in 2011, compared with 2010, as a net result of higher retail revenues and lower financing costs, partially offset by higher depreciation. Retail revenues are expected to increase as a result of the Kentucky rate case and recoveries associated with environmental investments. Depreciation is expected to increase due to commencing dispatch of TC2 in January 2011, to serve customer demands. See Risk Factors for a discussion of the risk factors that may impact the 2011 outlook.

Net Income

The following table summarizes the significant components of net income for the three months ended March 31, 2011 and 2010, and the changes therein:

	Successor	Predecessor	
	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Increase (Decrease)
Total operating revenues	$ 406	$ 380	$ 26
Total operating expenses	299	293	6
Operating income	107	87	20
Equity in earnings of unconsolidated venture	1	3	(2)
Interest expense	18	2	16
Interest expense to affiliated companies	-	18	(18)
Income from continuing operations, before income taxes	90	70	20
Income tax expense	32	26	6
Net income	$ 58	$ 44	$ 14

Statement of Income Analysis - Margin

Non-GAAP Financial Measures

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, Margin. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. These mechanisms allow for timely recovery of certain expenses, returns on capital investments associated with environmental regulations and performance incentives. As a result, this measure represents the net revenues from KU's operations. This performance measure is used, in conjunction with other information, internally by senior management and the Board of Directors to manage KU's operations. KU believes that Margin provides another criterion to make investment decisions.

Margin is not intended to replace Operating income, which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to present the results of their operations.

The following table reconciles Operating income to Margin as defined by KU:

	Successor	Predecessor
	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Operating income (a)	$ 107	$ 87
Adjustments:		
Other operation and maintenance expenses (a)	89	79
Depreciation and amortization (a)	45	34
Expense adjustments (b)	(22)	(17)
Margin (c)	$ 219	$ 183

(a) As reported on the Condensed Statements of Income.
(b) The components of these adjustments are detailed in the table below.
(c) Margin is higher primarily due to the increase in Kentucky base rates, effective August 1, 2010, partially offset by lower volumes largely due to milder weather in 2011.

The following table provides details of margin expense adjustments:

	Successor	Predecessor
	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Expense adjustments (a)		
ECR mechanism (b)	$ 17	$ 9
DSM mechanism (b)	2	2
Transmission (c)	2	3
Consumables (c)	1	4
Fuel operating and maintenance expenses (d)	-	(1)
Total expense adjustments	$ 22	$ 17

(a) To include/exclude the impact of any expenses consistent with the way management reviews Margin internally.
(b) Relates to costs associated with the Kentucky Commission's approved cost recovery mechanisms. These costs are recovered in customer rates and are therefore included in Margin.
(c) Included in Other operation and maintenance expenses on the Condensed Statements of Income.
(d) For management review purposes, Fuel operating and maintenance expenses are excluded from Margin. The expenses were previously included in Fuel for electric generation on the Condensed Statement of Income under the Predecessor.

Operating Revenues

The $26 million increase in operating revenues for the three months ended March 31, 2011, compared with the three months ended March 31, 2010, was primarily due to:

	Increase (Decrease)
Base rate price variance (a)	$ 21
Demand revenue (b)	10
ECR revenue	4
Sales to LG&E	3
Other	1
FAC price variance	(5)
Retail sales volumes (c)	(8)
	$ 26

(a) The increase in revenues due to the base rate price variance during the three months ended March 31, 2011, compared with the three months ended March 31, 2010, resulted from higher base rates effective August 1, 2010. See Note 3, Rates and Regulatory Matters, for further discussion of the Kentucky rate case.
(b) Demand revenue increased during the three months ended March 31, 2011, compared with the three months ended March 31, 2010, as a result of higher demand rates effective August 1, 2010. See Note 3, Rates and Regulatory Matters, for further discussion of the Kentucky rate case.
(c) Retail sales volumes decreased during the three months ended March 31, 2011, compared with the three months ended March 31, 2010, primarily as a result of reduced consumption by residential and commercial customers due to milder 2011 winter.

Operating Expenses

The changes in operating expenses for the three months ended March 31, 2011, compared with the three months ended March 31, 2010, were as follows:

	Increase (Decrease)
Fuel for electric generation	$ 4
Power purchased	(19)
Other operation and maintenance	10
Depreciation and amortization	11
	$ 6

Power Purchased

The $19 million decrease for the three months ended March 31, 2011, compared with the three months ended March 31, 2010, was primarily due to the expiration of a long-term power purchased contract in May 2010.

Other Operation and Maintenance Expenses

The $10 million increase for the three months ended March 31, 2011, compared with the three months ended March 31, 2010, was primarily due to:

	Increase (Decrease)
Steam maintenance (a)	$ 5
Steam operations (b)	4
Transmission (c)	2
Distribution maintenance (d)	(4)
Other	3
	$ 10

(a) The steam maintenance expense increased due to a scheduled Ghent Unit 3 outage in 2011, in addition to increased boiler and burner maintenance costs.
(b) The steam operating expense increased primarily due to increases in scrubber reactant expenses and other consumables.
(c) Settlement agreement with a third party and other higher transmission costs.
(d) Primarily the result of $6 million of 2009 storm restoration expenses moved to a regulatory asset in 2011, as these costs will be recovered in rates. See Note 3, Rates and Regulatory Matters, for further discussion of storm restoration.

Depreciation and amortization

The $11 million increase for the three months ended March 31, 2011, compared with the three months ended March 31, 2010, was primarily due to commencing dispatch of TC2 to serve customer demands in January 2011.

Interest Expense

The $2 million decrease was primarily due to lower interest rates for the three months ended March 31, 2011, compared with the three months ended March 31, 2010. This decrease was offset by higher debt balances for the three months ended March 31, 2011, compared with the three months ended March 31, 2010. See variance details below:

	Increase (Decrease)
Interest rates (a)	$ (4)
Debt balances (b)	2
	$ (2)

(a) Interest rates on the first mortgage bonds were lower than the rates on the Fidelia loans which were replaced.
(b) KU's debt principal balances were $169 million higher for the three months ended March 31, 2011, compared with the three months ended March 31, 2010. See Note 8, Debt, for further information.

Income Tax Expense

See Note 7, Income Taxes, for a reconciliation of differences between the U.S. federal income tax expense at statutory rates and KU's income tax expense.

Financial Condition

Liquidity and Capital Resources

KU expects to continue to have access to adequate sources of liquidity through operating cash flows, cash and cash equivalents, credit facilities and/or infusion of capital from its parent.

KU had the following:	March 31, 2011	December 31, 2010
Cash and cash equivalents	$ 57	$ 3
Notes payable to affiliated company (a)	$ -	$ 10

(a) Amounts represent borrowings under KU's intercompany money pool agreement wherein LKE and/or LG&E make funds available to KU at market-based rates of up to $400 million. See Note 8, Debt, for further information.

The $54 million increase in KU's cash and cash equivalents position was primarily the net result of the following:

- $130 million of cash provided by operating activities,
- $35 million of construction expenditures,
- payment of $31 million of common stock dividends, and
- a net decrease in short-term debt of $10 million

Credit Facilities

See Note 8, Debt, for KU’s total committed borrowing capacity under its credit facilities and the use of this borrowing capacity.

Auction Rate Securities

Auctions for auction rate securities issued by KU continued to fail throughout 2010 and thus far in 2011. See Note 8, Debt, for further discussion.

Credit Ratings

A downgrade in KU’s credit ratings could impact its ability to access capital and increase the cost of credit facilities and any new debt. KU’s credit ratings reflect the views of three national rating agencies. 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. In March 2011, one national agency revised downward the long-term and short-term bond ratings of KU by one notch, and left the ratings on credit watch with negative implications as the result of PPL’s proposed acquisition of the Central Networks business in the United Kingdom. In April 2011, the same agency removed the negative credit watch for all ratings and upgraded by one notch the short-term ratings of KU. In May 2011, one national rating agency downgraded the long-term rating of four of KU’s pollution control bonds by one notch in connection with the substitution of the letters of credit enhancing these four bonds.

In October 2010, one national rating agency revised downward the short-term credit rating of the pollution control bonds and the issuer rating of the Company as a result of the then pending acquisition by PPL. Another raised the long-term rating of the pollution control bonds as a result of the addition of the first mortgage bonds as collateral. In October 2010, a third national rating agency provided an initial rating of the Company’s pollution control bonds and first mortgage bonds.

Ratings Triggers

KU has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation, which contain provisions requiring KU to post additional collateral, or permit the counterparty to terminate the contract if KU’s credit rating was to fall below investment grade. See Note 4, Derivative Financial Instruments, for a discussion of Credit Risk Related Contingent Features, including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at March 31, 2011. At March 31, 2011, if KU’s credit ratings had been below investment grade, KU would have been required to prepay or post an additional $13 million of collateral to counterparties for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations.

Risk Management

Market Risk

KU is exposed to market risk from equity instruments, interest rate instruments and commodity instruments, as discussed below. However, regulatory cost recovery mechanisms significantly mitigate those risks.

Commodity Price Risk:

The Company's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, KU is subject to commodity price risk for only a small portion of on-going business operations. The Company conducts energy trading and risk management activities to maximize the value of the physical assets at times when the assets are not required to serve its customers, and the Company manages energy commodity risk using derivative instruments, including swaps and forward contracts. The changes in the net fair value of KU's commodity derivative contracts for the three months ended March 31, 2011 and 2010 were not significant. See Note 4, Derivative Financial Instruments, for further information.

Interest Rate Risk:

KU has issued debt to finance its operations, which exposes it to interest rate risk. KU'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. Pursuant to KU's company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. At March 31, 2011, the Company's annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

Securities Price Risk:

KU has securities price risk through its participation in defined benefit pension and postretirement benefit plans. Declines in the market price of debt and equity securities could impact contribution requirements. See Management's Discussion and Analysis in the Company's Financial Statements and Additional Information Report for 2010 for a discussion of the assumptions and sensitivities regarding the Company's defined benefit pension and postretirement benefit plans assumptions.

Credit Risk

KU is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. KU maintains credit policies and procedures to limit counterparty credit risk including evaluating credit ratings and financial information along with having certain counterparties post margin if the credit exposure exceeds certain thresholds.

KU is exposed to potential losses as a result of nonpayment by customers. The Company maintains an allowance for doubtful accounts composed of accounts aged more than four months. Accounts are written off as management determines them uncollectible. See Application of Critical Accounting Policies and Estimates and Note 2, Summary of Significant Accounting Policies, for further discussion.

Certain of the Company's derivative instruments contain provisions that require it 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. See Note 4, Derivative Financial Instruments, for information regarding exposure and the risk management activities.

Related Party Transactions

KU and its parent, LKE, and subsidiaries of LKE engage in related party transactions. KU is not aware of any material ownership interest or operating responsibility by the executive officers of KU in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with KU. See Note 10, Related Party Transactions, for additional information on related party transactions.

Acquisitions, Development and Divestitures

KU and LG&E have been constructing a new 760 megawatts capacity base-load, coal-fired unit, TC2, which is jointly owned by KU (60.75%) and LG&E (14.25%), together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency (combined 25%). With limited exceptions, the Company took care, custody and control of TC2 on January 22, 2011, and has dispatched the unit to meet customer demand since that date. KU, LG&E and the contractor agreed to a further amendment of the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. See Note 9, Commitments and Contingencies, for further information. KU continuously reexamines development projects based on market conditions and other factors to determine whether to proceed, to cancel, or to expand the projects.

Application of Critical Accounting Policies and Estimates

KU's financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition and results of operations of KU and require estimates or other judgments of matters inherently uncertain: price risk management, regulatory mechanisms, defined benefits, asset impairment, loss accruals, AROs, income tax uncertainties, and purchase price allocation. See Management's Discussion and Analysis in the Company's Financial Statements and Additional Information Report for 2010 for a discussion of each critical accounting policy.

Quantitative and Qualitative Disclosures About Market Risk

Reference is made to Risk Management in Management's Discussion and Analysis. See Note 4, Derivative Financial Instruments, for further information.

Controls and Procedures

(a) Evaluation of disclosure controls and procedures

KU's management, including its principal executive officer and principal financial officer, has evaluated the Company's disclosure controls and procedures related to the recording, processing, summarizing and reporting of information in its periodic reports as of March 31, 2011. These disclosure controls and procedures have been designed by the Company to ensure that (i) material information required for disclosure by the Company in its reports is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, by other employees of the Company as appropriate to allow timely decisions regarding required disclosure, and (ii) this information is recorded, processed, summarized, evaluated and reported, particularly during the period for which this quarterly report has been prepared.

(b) Change in internal controls over financial reporting

KU's principal executive officer and principal financial officer have concluded that there were no changes in the Company's internal control over financial reporting that occurred during the Company's first fiscal quarter of 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Legal Proceedings

For a discussion of the significant legal proceedings, including, but not limited to, certain rates and regulatory, environmental, climate change, litigation and other matters, involving the Company, refer to the Notes to Financial Statements in KU's Financial Statements and Additional Information Report for 2010. Reference is also made to the matters described in Note 3, Rates and Regulatory Matters, Note 9, Commitments and Contingencies, and Note 11, Subsequent Events, of this quarterly report. Except as described in this quarterly report, to date the proceedings reported in the Company's Financial Statements and Additional Information Report for 2010 have not materially changed.

Risk Factors

There have been no material changes in KU's risk factors from those disclosed in KU's Financial Statements and Additional Information Report for 2010.

Kentucky Utilities Company

Condensed Financial Statements and Additional Information
(Unaudited)

As of September 30, 2010 and December 31, 2009
and for the three and nine months ended
September 30, 2010 and 2009

INDEX OF ABBREVIATIONS

AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CATR	Clean Air Transport Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
CMRG	Carbon Management Research Group
Companies	KU and LG&E
Company	KU
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EEI	Edison Electric Institute
EKPC	East Kentucky Power Cooperative, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
GHG	Greenhouse Gas
IRS	Internal Revenue Service
KCCS	Kentucky Consortium for Carbon Storage
KDAQ	Kentucky Division for Air Quality
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LG&E	Louisville Gas and Electric Company
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
NOV	Notice of Violation
NOx	Nitrogen Oxide
OMU	Owensboro Municipal Utilities
OVEC	Ohio Valley Electric Corporation
PPL	PPL Corporation
S&P	Standard & Poor’s Ratings Services
SCR	Selective Catalytic Reduction
SERC	SERC Reliability Corporation
Servco	LG&E and KU Services Company (formerly E.ON U.S. Services Inc.)
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
Virginia Commission	Virginia State Corporation Commission

Kentucky Utilities Company
Condensed Financial Statements and Additional Information
(Unaudited)
As of September 30, 2010 and December 31, 2009
and for the three and nine months ended
September 30, 2010 and 2009

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PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
500 West Main Street
Suite 1800
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Report of Independent Accountants

To Shareholder of Kentucky Utilities Company:

We have reviewed the accompanying condensed balance sheet of Kentucky Utilities Company as of September 30, 2010, and the related condensed statements of income and comprehensive income, and of retained earnings for the three-month and nine-month periods ended September 30, 2010 and 2009 and the condensed statement of cash flows for the nine-month periods ended September 30, 2010 and 2009. This condensed interim financial information is the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Kentucky Utilities Company as of December 31, 2009, and the related statements of income, retained earnings, and of cash flows for the year then ended (not presented herein), and in our report dated March 19, 2010, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet information as of December 31, 2009, is fairly stated in all material respects in relation to the balance sheet from which it has been derived.

PricewaterhouseCoopers LLP

October 29, 2010

Kentucky Utilities Company
Condensed Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Operating revenues (Note 10)	$ 416	$ 341	$ 1,146	$ 1,009
Operating expenses:				
Fuel for electric generation	146	114	391	329
Power purchased (Note 10)	41	47	135	154
Other operation and maintenance expenses	86	22	251	230
Depreciation, accretion and amortization	38	33	106	99
Total operating expenses	311	216	883	812
Operating income	105	125	263	197
Interest expense (Note 8)	2	2	5	5
Interest expense to affiliated companies (Notes 8 and 10)	18	18	55	51
Other income (expense) – net	1	-	2	7
Income before income taxes	86	105	205	148
Income tax expense (Note 7)	32	39	76	49
Net income	$ 54	$ 66	$ 129	$ 99

The accompanying notes are an integral part of these condensed financial statements.

Kentucky Utilities Company
Condensed Statements of Comprehensive Income
(Unaudited)
(Millions of $)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net income	$ 54	$ 66	$ 129	$ 99
Comprehensive income (loss) attributable to unconsolidated venture – net of tax benefit of $1, $0, $1 and $0, respectively	(2)	-	(2)	-
Comprehensive income	$ 52	$ 66	$ 127	$ 99

Condensed Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Balance at beginning of period	$ 1,403	$ 1,228	$ 1,328	$ 1,195
Net income	54	66	129	99
	1,457	1,294	1,457	1,294
Cash dividends declared (Note 10)	(50)	-	(50)	-
Balance at end of period	$ 1,407	$ 1,294	$ 1,407	$ 1,294

The accompanying notes are an integral part of these condensed financial statements.

Kentucky Utilities Company
Condensed Balance Sheets
(Unaudited)
(Millions of $)

	September 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 2	$ 2
Accounts receivable – net:		
Customer – less reserves of $2 in 2010 and $1 in 2009	172	155
Affiliated companies	-	9
Other – less reserves of $2 in 2010 and 2009	28	18
Materials and supplies:		
Fuel (predominantly coal)	98	98
Other materials and supplies	42	39
Regulatory assets (Note 2)	14	32
Prepayments and other current assets	11	13
Total current assets	367	366
Investment in unconsolidated venture	12	12
Property, plant and equipment:		
Regulated utility plant – electric	5,426	4,892
Accumulated depreciation	(1,902)	(1,838)
Net regulated utility plant	3,524	3,054
Construction work in progress	946	1,257
Property, plant and equipment – net	4,470	4,311
Deferred debits and other assets:		
Regulatory assets (Note 2):		
Pension benefits	105	105
Other regulatory assets	110	117
Cash surrender value of key man life insurance	39	38
Other assets	7	7
Total deferred debits and other assets	261	267
Total assets	$ 5,110	$ 4,956

The accompanying notes are an integral part of these condensed financial statements.

Kentucky Utilities Company
Condensed Balance Sheets (continued)
(Unaudited)
(Millions of $)

	September 30, 2010	December 31, 2009
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt (Notes 5 and 8)	$ 228	$ 228
Current portion of long-term debt to affiliated company (Note 5)	33	33
Notes payable to affiliated companies (Notes 8 and 10)	61	45
Accounts payable	105	107
Accounts payable to affiliated companies (Note 10)	71	88
Customer deposits	23	22
Regulatory liabilities (Note 2)	12	4
Other current liabilities	39	42
Total current liabilities	572	569
Long-term debt:		
Long-term debt (Notes 5 and 8)	123	123
Long-term debt to affiliated company (Notes 5, 8 and 10)	1,298	1,298
Total long-term debt	1,421	1,421
Deferred credits and other liabilities:		
Deferred income taxes	378	336
Accumulated provision for pensions and related benefits (Note 6)	160	160
Investment tax credits (Note 7)	104	104
Asset retirement obligations (Note 3)	59	34
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	343	331
Other regulatory liabilities	24	29
Other liabilities	20	20
Total deferred credits and other liabilities	1,088	1,014
Common equity:		
Common stock, without par value –		
Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in capital	316	316
Accumulated other comprehensive loss	(2)	-
Retained earnings:		
Retained earnings	1,397	1,318
Undistributed earnings from unconsolidated venture	10	10
Total common equity	2,029	1,952
Total liabilities and equity	$ 5,110	$ 4,956

The accompanying notes are an integral part of these condensed financial statements.

Kentucky Utilities Company
Condensed Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Nine Months Ended September 30, 2010	2009
Cash flows from operating activities:		
Net income	$ 129	$ 99
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, accretion and amortization	106	99
Deferred income taxes – net	42	48
Investment tax credits (Note 7)	-	17
Provision for pension and postretirement benefits	11	13
Undistributed earnings of unconsolidated venture	(4)	10
Other	1	3
Changes in current assets and liabilities:		
Accounts receivable	(6)	30
Materials and supplies	(3)	(21)
Regulatory assets and liabilities	26	(1)
Accounts payable	(20)	(4)
Accounts payable to affiliated companies	31	(8)
Other current assets and liabilities	-	(10)
Pension and postretirement funding (Note 6)	(17)	(17)
Other regulatory assets and liabilities	(3)	(64)
Other – net	7	(4)
Net cash provided by operating activities	300	190
Cash flows from investing activities:		
Construction expenditures	(218)	(378)
Purchases of assets from affiliate	(48)	-
Change in restricted cash	-	9
Net cash used in investing activities	(266)	(369)
Cash flows from financing activities:		
Borrowings from affiliated company (Note 8)	104	106
Repayments on borrowings from affiliated company (Note 8)	(88)	-
Payment of dividends (Note 10)	(50)	-
Capital contribution (Note 10)	-	75
Net cash (used in) provided by financing activities	(34)	181
Change in cash and cash equivalents	-	2
Cash and cash equivalents at beginning of period	2	2
Cash and cash equivalents at end of period	$ 2	$ 4

The accompanying notes are an integral part of these condensed financial statements.

Kentucky Utilities Company
Notes to Condensed Financial Statements
(Unaudited)

Note 1 – General

KU's common stock is wholly-owned by E.ON U.S., an indirect wholly-owned subsidiary of E.ON. In the opinion of management, the unaudited condensed financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for fair statements of income, comprehensive income, and retained earnings, balance sheets, and statements of 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 condensed 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, 2009, including the audited financial statements and notes therein.

The December 31, 2009, condensed balance sheet included herein is derived from the December 31, 2009, audited balance sheet. Amounts reported in the condensed statements of income are not necessarily indicative of amounts expected for the respective annual periods due to the effects of seasonal temperature variations on energy consumption, regulatory rulings, the timing of maintenance on electric generating units, changes in mark-to-market valuations, changing commodity prices and other factors.

Certain reclassification entries have been made to the previous year's financial statements to conform to the 2010 presentation with no impact on total assets, liabilities and capitalization or previously reported net income and net cash flows.

PPL Acquisition

On April 28, 2010, E.ON U.S. announced that a Purchase and Sale Agreement (the "Agreement") had been entered into among E.ON US Investments, PPL and E.ON.

The Agreement provides for the sale of E.ON U.S. to PPL. Pursuant to the Agreement, at closing, PPL will acquire all of the outstanding limited liability company interests of E.ON U.S. for cash consideration of $2.6 billion. In addition, pursuant to the Agreement, PPL agreed to assume $764 million of pollution control bonds and medium term notes and to repay indebtedness owed by E.ON U.S. and its subsidiaries to E.ON US Investments and its affiliates. Such affiliate indebtedness is currently estimated to be $4.2 billion. The aggregate consideration payable by PPL on closing is currently estimated to be $7.6 billion (including the assumed indebtedness), subject to contractually agreed adjustments.

The transaction is subject to customary closing conditions, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Act, receipt of required regulatory approvals (including state regulators in Kentucky, Virginia and Tennessee, and the FERC) and the absence of injunctions or restraints imposed by governmental entities. As of October 26, 2010, all of the required regulatory approvals were received, and the transaction is expected to close on November 1, 2010.

Change of control and financing-related applications were filed on May 28, 2010, with the Kentucky Commission and on June 15, 2010, with the Virginia Commission and the Tennessee Regulatory Authority. An application with the FERC was filed on June 28, 2010. During the second quarter of 2010, a number of parties were granted intervenor status in the Kentucky Commission proceedings, and data request filings and responses occurred. Early termination of the Hart-Scott-Rodino waiting period was received on August 2, 2010.

A hearing in the Kentucky Commission proceedings was held on September 8, 2010, at which time a unanimous settlement agreement was presented. In the settlement, KU and LG&E commit that no base rate increases would take effect before January 1, 2013. The KU and LG&E rate increases that took effect on August 1, 2010, were not impacted by the settlement. Under the terms of the settlement, the Companies retain the right to seek approval for the deferral of “extraordinary and uncontrollable costs.” Interim rate adjustments will continue to be permissible during that period for existing fuel, environmental and demand-side management cost trackers. The agreement also substitutes an acquisition savings shared deferral mechanism for the requirement that the Companies file a synergies plan with the Kentucky Commission. This mechanism, which will be in place until the earlier of five years or the first day of the year in which a base rate increase becomes effective, permits the Companies to earn up to a 10.75 percent return on equity. Any earnings above a 10.75 percent return on equity will be shared with customers on a 50%/50% basis. On September 30, 2010, the Kentucky Commission issued an Order approving the transfer of ownership of KU and LG&E via the acquisition of E.ON U.S. by PPL, incorporating the terms of the submitted settlement. On October 19, 2010 and October 21, 2010, respectively, Orders approving the acquisition of E.ON U.S. by PPL were received from the Virginia Commission and the Tennessee Regulatory Authority. The Commissions’ Orders contained a number of other commitments with regard to operations, workforce, community involvement and other matters.

In mid-September 2010, KU and LG&E and other applicants in the FERC change of control proceeding reached an agreement with the protesters, whereby such protests have been withdrawn. The agreement, which has subsequently been filed for consideration with the FERC, includes various conditional commitments, such as a continuation of certain existing undertakings with protesters in prior cases, an agreement not to terminate certain KU municipal customer contracts prior to January 2017, an exclusion of any transaction-related costs from wholesale energy and tariff customer rates to the extent that the Company has agreed to not seek the same transaction-related cost from retail customers and agreements to coordinate with protesters in certain open or ongoing matters. A FERC Order approving the transaction was received on October 26, 2010.

On September 30, 2010, October 19, 2010 and October 21, 2010, respectively, KU received Kentucky Commission, Virginia Commission and Tennessee Regulatory Authority approvals to complete certain refinancing transactions in connection with the anticipated PPL acquisition and other business factors. Based on credit and financial market conditions, KU anticipates issuing up to $1.5 billion in first mortgage bonds, the proceeds of which will substantially be used to refund existing long-term intercompany debt. On October 29, 2010, as required by existing covenants, in connection with the anticipated issuance of any such secured debt, KU completed collateralization of certain outstanding pollution control bond debt series which were formerly unsecured. Pursuant to such collateralization, approximately $351 million in existing pollution control debt became collateralized debt, supported by a first mortgage lien. KU also anticipates replacing its $35 million bilateral line of credit with an unaffiliated institution by entering into a multi-year revolving credit facility with several financial institutions in an aggregate amount not to exceed $400 million. KU may complete these transactions, in whole or in part, during late 2010 and early 2011. See Note 8, Short-Term and Long-Term Debt, for further information regarding the refinancing, remarketing or conversion of existing pollution control debt.

Recent Accounting Pronouncements

Fair Value Measurements

In January 2010, the FASB issued guidance related to fair value measurement disclosures requiring separate disclosure of amounts of significant transfers in and out of level 1 and level 2 fair value measurements and separate information about purchases, sales, issuances, and settlements within level 3 measurements. This guidance is effective for the interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about the roll-forward of activity in level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. This guidance has no impact on the Company's results of operations, financial position, liquidity or disclosures.

Note 2 – Rates and Regulatory Matters

KU's Kentucky base rates are calculated based on a return on capitalization (common equity, long-term debt and notes payable) including certain regulatory adjustments to exclude non-regulated investments and environmental compliance plans recovered separately through the ECR mechanism. Currently, none of the regulatory assets or regulatory liabilities are excluded from the return on capitalization utilized in the calculation of Kentucky base rates; therefore, a return is earned on all Kentucky regulatory assets.

KU's Virginia base rates are calculated based on a return on rate base (net utility plant less deferred taxes and miscellaneous deductions). All regulatory assets and liabilities are excluded from the return on rate base utilized in the calculation of Virginia base rates.

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, Rates and Regulatory Matters, of KU's Annual Report for the year ended December 31, 2009.

2010 Kentucky Rate Case

In January 2010, KU filed an application with the Kentucky Commission requesting an increase in electric base rates of approximately 12%, or $135 million annually, including an 11.5% return on equity. KU requested the increase, based on the twelve month test year ended October 31, 2009, to become effective on and after March 1, 2010. The requested rates were suspended until August 1, 2010. A number of intervenors entered the rate case, including the AG, certain representatives of industrial and low-income groups and other third parties, and submitted filings challenging the Company's requested rate increases, in whole or in part. A hearing was held on June 8, 2010. KU and all of the intervenors, except the AG, agreed to a stipulation providing for an increase in electric base rates of $98 million annually and filed a request with the Kentucky Commission to approve such settlement. An Order in the proceeding was issued in July 2010, approving all the provisions in the stipulation. The new rates became effective on August 1, 2010.

Virginia Rate Case

In June 2009, KU filed an application with the Virginia Commission requesting an increase in electric base rates for its Virginia jurisdictional customers in an amount of $12 million annually or approximately 21%. The proposed increase reflected a proposed rate of return on rate base of 8.586% based on a return on equity of 12%. During December 2009, KU and the Virginia Commission Staff agreed to a Stipulation and Recommendation authorizing base rate revenue increases of $11 million annually and a return on rate base of 7.846% based on a 10.5% return on common equity. A public hearing was held during January 2010. As permitted, pursuant to a Virginia Commission Order, KU elected to implement the proposed rates effective November 1, 2009, on an interim basis. In March 2010, the Virginia Commission issued an Order approving the stipulation, with the increased rates to be put into effect as of April 1, 2010. As part of the stipulation, KU refunded approximately $1 million in interim rate amounts in excess of the ultimate approved rates. During August 2010, a report was filed detailing the costs of the refunds, the accounts charged and details validating that all refunds have been applied.

FERC Wholesale Rate Case

In September 2008, KU filed an application with the FERC for increases in electric base rates applicable to wholesale power sales contracts or interchange agreements involving, collectively, twelve Kentucky municipalities. The application requested a shift from an all-in stated unit charge rate to an unbundled formula rate, including an annual adjustment mechanism. In May 2009, the FERC issued an Order approving a settlement among the parties in the case, incorporating increases of approximately 3% from prior rates and a return on equity of 11%. In May 2010, KU submitted to the FERC the proposed current annual adjustment to the formula rate. This updated rate became effective on July 1, 2010, subject to certain review procedures by the wholesale requirements customers and the FERC, including potential refunds in the case of disallowed costs or charges.

By mutual agreement, the parties' settlement of the 2008 application left outstanding the issue of whether KU must allocate to the municipal customers a portion of renewable resources it may be required to procure on behalf of its retail ratepayers. In August 2009, the FERC accepted the issue for briefing and the parties completed briefing submissions during 2009. An Order was issued by the FERC in July 2010, indicating that KU is not required to allocate a portion of any renewable resources to the twelve municipalities, thus resolving the remaining issue.

Regulatory Assets and Liabilities

The following regulatory assets and liabilities were included in KU's balance sheets as of:

(in millions)	September 30, 2010	December 31, 2009
Current regulatory assets:		
Storm restoration (a)	$ 6	$ -
FAC (b)	4	1
ECR (b)	-	28
MISO exit (a)	1	2
Other (c)	3	1
Total current regulatory assets	$ 14	$ 32

	September 30, 2010	December 31, 2009
Non-current regulatory assets:		
Pension benefits (d)	$ 105	$ 105
Other non-current regulatory assets:		
Storm restoration (a)	52	59
ARO (e)	34	30
Unamortized loss on bonds (a)	12	12
MISO exit (a)	4	9
Other (c)	8	7
Subtotal other non-current regulatory assets	110	117
Total non-current regulatory assets	$ 215	$ 222
Current regulatory liabilities:		
ECR	$ 6	$ -
DSM	4	3
Other (f)	2	1
Total current regulatory liabilities	$ 12	$ 4
Non-current regulatory liabilities:		
Accumulated cost of removal of utility plant	$ 343	$ 331
Other non-current regulatory liabilities:		
Deferred income taxes – net	8	9
Postretirement benefits	9	9
MISO exit	1	4
Other (f)	6	7
Subtotal other non-current regulatory liabilities	24	29
Total non-current regulatory liabilities	$ 367	$ 360

(a) These regulatory assets are recovered through base rates.
(b) The FAC and ECR regulatory assets have separate recovery mechanisms with recovery within twelve months.
(c) Other regulatory assets:

- Other current and non-current regulatory assets, including the CMRG and KCCS contributions, an EKPC FERC transmission settlement agreement and rate case expenses, are recovered through base rates.
- The current portion of the unamortized loss on bonds is recovered through base rates.
- KU generally recovers the FERC jurisdictional portion of the EKPC FERC transmission settlement agreement included in current and non-current regulatory assets in the application of the annual Open Access Transmission Tariff formula rate updates.
- Recovery of the FERC jurisdictional pension expense in non-current regulatory assets will be requested in a future FERC rate case.

(d) KU generally recovers this asset through pension expense included in the calculation of base rates.

(e) 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.
(f) Other current and non-current regulatory liabilities includes the Virginia levelized fuel factor regulatory liability, ARO liabilities and a change in accounting method for FERC jurisdictional spare parts. ARO liabilities are established from the removal costs accrued through depreciation under regulatory accounting for assets associated with AROs.

Storm Restoration

In January 2009, a significant ice storm passed through KU's service territory causing approximately 199,000 customer outages and was followed closely by a severe wind storm in February 2009, which caused approximately 44,000 customer outages. KU incurred $57 million in incremental operation and maintenance expenses and $33 million in 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 $62 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 $62 million based on its actual costs for storm damages and service restoration due to the January and February 2009 storms. In September 2009, the Company established a regulatory asset of $57 million for actual costs incurred. The Company received approval in its 2010 base rate case to recover this asset over a ten year period beginning August 1, 2010.

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, KU filed an application with the Kentucky Commission requesting approval to establish a regulatory asset and defer for future recovery approximately $3 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 $3 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 $2 million for actual costs incurred. The Company received approval in its 2010 base rate case to recover this asset over a ten year period beginning August 1, 2010.

FAC

In August 2010, the Kentucky Commission initiated a six-month review of KU's FAC mechanism for the expense period ended April 2010. An order is expected by the end of the year.

In February 2010, KU filed an application with the Virginia Commission seeking approval of a decrease in its fuel cost factor beginning with service rendered in April 2010. An Order was issued in April 2010, resulting in an agreed upon decrease of 23% from the fuel factor in effect for April 2009 through March 2010.

In January 2010, the Kentucky Commission initiated a six-month review of KU's FAC mechanism for the expense period ended August 2009. In May 2010, an Order was issued approving the charges and credits billed through the FAC during the review period.

ECR

In July 2010, the Kentucky Commission initiated a six-month review of KU's environmental surcharge for the billing period ending April 2010. An order is expected in the fourth quarter of 2010.

In January 2010, the Kentucky Commission initiated a six-month review of KU's environmental surcharge for the billing period ending October 2009. In May 2010, an Order was issued approving the amounts billed through the ECR during the six-month period and the rate of return on capital and allowing recovery of the under-recovery position in subsequent monthly filings.

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. During 2009, KU reached a unanimous settlement with all parties to the case, and the Kentucky Commission issued an Order approving KU's application. Recovery on customer bills through the monthly ECR surcharge for these projects began with the February 2010 billing cycle. At December 31, 2009, the Company had a regulatory asset of $28 million, which changed to a regulatory liability in the first quarter of 2010, as a result of these roll-in adjustments to base rates. At September 30, 2010, the regulatory liability balance was $6 million.

MISO

In August 2010, the FERC issued three Orders accepting most facets of several MISO Revenue Sufficiency Guarantee ("RSG") compliance filings. The FERC ordered the MISO to issue refunds for RSG charges that were imposed by the MISO on the assumption that there were rate mismatches for the period beginning November 5, 2007 through the present. There is no financial statement impact to the Company from this Order, as the MISO had anticipated that the FERC would require these refunds and had preemptively included them in the resettlements paid in 2009. The FERC denied MISO's proposal to exempt certain resources from RSG charges, effective prospectively. The FERC accepted portions and rejected portions of the MISO's proposed RSG rate Redesign Proposal, which will be effective when the software is ready for implementation subject to further compliance filings. The impact of the Redesign Proposal on the Company cannot be estimated at this time.

Other Regulatory Matters

TC2 Depreciation

In August 2009, the Companies jointly filed an application with the Kentucky Commission to approve new common depreciation rates for applicable jointly-owned TC2-related generating, pollution control and other plant equipment and assets. During December 2009, the Kentucky Commission extended the data discovery process through January 2010, and authorized the Companies on an interim basis to begin using the depreciation rates for TC2 as proposed in the application. In March 2010, the Kentucky Commission issued a final Order approving the use of the proposed depreciation rates on a permanent basis.

TC2 Transmission Matters

KU's and LG&E's CCN for a transmission line associated with the TC2 construction has been challenged by certain property owners in Hardin County, Kentucky. In August 2006, the Companies obtained a successful dismissal of the challenge at the Franklin County Circuit Court, which was reversed by the Kentucky Court of Appeals in December 2007. In April 2009, the Kentucky Supreme Court granted KU's and LG&E's motion for discretionary review of the Court of Appeals' decision. In August 2010, the Kentucky Supreme Court issued an Order reversing the decision of the Kentucky Court of Appeals and reinstating the Franklin County Circuit Court's dismissal of the property owners' challenge to KU's and LG&E's CCN.

During 2008, KU obtained various successful rulings at the Hardin County Circuit Court confirming its condemnation rights. In August 2008, several landowners appealed such rulings to the Kentucky Court of Appeals. In May 2010, the Kentucky Court of Appeals issued an Order affirming the Hardin Circuit Court's finding that KU had the right to condemn easements on the properties. In May 2010, the landowners filed a petition for reconsideration with the Court of Appeals. In July 2010, the Court of Appeals denied that petition. In August, 2010, the landowners filed for discretionary review of that denial by the Kentucky Supreme Court.

In a separate proceeding, certain Hardin County landowners filed an action in federal district court in Louisville, Kentucky against the U.S. Army challenging the same transmission line claiming that certain Fort Knox-related sections of the line failed to comply with certain National Historic Preservation Act procedural requirements. In October 2009, the federal court granted the defendants' motion for summary judgment and dismissed the plaintiffs' claims. During November 2009, the petitioners filed submissions for review of the decision with the 6^{th} Circuit Court of Appeals. In May 2010, the appellate court issued an order approving the plaintiffs' voluntary withdrawal of their appeals.

Consistent with the regulatory authorizations and relevant legal proceedings, the Companies have completed construction activities on temporary or permanent transmission line segments. During the second quarter of 2010, the Companies placed into operation an appropriate combination of permanent and temporary sections of the transmission line. While the Companies are not currently able to predict the ultimate outcome and possible financial effects of the remaining legal proceedings, the Companies do not believe the matter involves relevant or continuing risks to operations.

Mandatory Reliability Standards

As a result of the EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007, and authority was delegated to various Regional Reliability Organizations ("RROs") by the North American Electric Reliability Corporation ("NERC"), which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day, as well as non-monetary penalties, depending on the circumstances of the violation. The Companies are members of SERC, which acts as KU's and LG&E's RRO. During December 2009, SERC and the Companies agreed to settlements involving penalties totaling less than $1 million for each utility related to their self-reports during June and October 2008, concerning possible violations of standards. During December 2009 and April, July and August 2010, the Companies submitted ten self-reports relating to various standards, which self-reports remain in the early stages of RRO review, and therefore, the Companies are unable to estimate the outcome of these matters.

Mandatory reliability standard settlements commonly also include non-penalty elements, including compliance steps and mitigation plans. Settlements with SERC proceed to NERC and FERC review before becoming final. While the Companies believe they are in compliance with the mandatory reliability standards, events of potential non-compliance may be identified from time-to-time. The Companies cannot predict such potential violations or the outcome of the self-reports described above.

Note 3 – Asset Retirement Obligation

A summary of KU's net ARO assets, ARO liabilities and regulatory assets established under the asset retirement and environmental obligations guidance of the FASB ASC follows:

(in millions)	ARO Net Assets	ARO Liabilities	Regulatory Assets
As of December 31, 2009	$ 4	$ (34)	$ 30
ARO accretion	-	(2)	2
ARO revaluation	21	(23)	2
As of September 30, 2010	$ 25	$ (59)	$ 34

As of September 30, 2010, the Company performed a revaluation of its AROs as a result of recently proposed environmental legislation and improved ability to forecast asset retirement costs due to recent construction and retirement activity.

Pursuant to regulatory treatment prescribed under the regulated operations guidance of the FASB ASC, an offsetting regulatory credit was recorded in depreciation and amortization in the income statement of $2 million for the nine months ended September 30, 2010 for the ARO accretion and depreciation expense. KU's AROs are primarily related to the final retirement of assets associated with generating units.

KU transmission and distribution lines largely operate under perpetual property easement agreements which do not generally require restoration on removal of the property. Therefore, under the asset retirement and environmental obligations guidance of the FASB ASC, no material asset retirement obligations are recorded for transmission and distribution assets.

Note 4 – Derivative Financial Instruments

KU is subject to interest rate and commodity price risk related to on-going business operations. It currently manages these risks using derivative instruments, including swaps and forward contracts. The Company's policies allow the interest rate risk to be managed through the use of fixed rate debt, floating rate debt and interest rate swaps. At September 30, 2010, a 100 basis point change in the benchmark rate on KU's variable rate debt, not effectively hedged by an interest rate swap, would impact pre-tax interest expense by $4 million annually. Although the Company's policies allow for the use of interest rate swaps, as of September 30, 2010 and December 31, 2009, KU had no interest rate swaps outstanding.

The Company does not net collateral against derivative instruments.

Energy Trading and Risk Management Activities

KU conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to 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. 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 2010 or 2009. Changes in market pricing, interest rate and volatility assumptions were made during both years.

KU's financial assets and liabilities as of September 30, 2010 and December 31, 2009, arising from energy trading and risk management contracts not designated as hedging instruments accounted for at fair value total less than $1 million and are recorded in prepayments and other current assets and other current liabilities, respectively.

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, KU 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, KU 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, 2010, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better. The Company has reserves 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, 2010 and December 31, 2009, counterparty credit reserves related to energy trading and risk management contracts were less than $1 million.

The net volume of electricity based financial derivatives outstanding at September 30, 2010 and December 31, 2009, was zero and 43,400 Mwhs, respectively. No cash collateral related to the energy trading and risk management contracts was required at September 30, 2010. Cash collateral related to the energy trading and risk management contracts was less than $1 million at December 31, 2009. Cash collateral related to the energy trading and risk management contracts is categorized as other accounts receivable in the accompanying balance sheets.

KU manages the price risk of its estimated future excess economic generation capacity using market-traded forward contracts. Hedge accounting treatment has not been elected for these transactions, and therefore realized and unrealized gains and losses are included in the statements of income.

The following tables present the effect of derivatives not designated as hedging instruments on income:

(in millions)		Three Months Ended September 30,	
Loss Recognized in Income	Location	2010 (a)	2009
Unrealized loss	Electric revenues	$ -	$ (3)

		Nine Months Ended September 30,	
Loss Recognized in Income	Location	2010 (a)	2009
Unrealized loss	Electric revenues	$ -	$ (1)

(a) Unrealized loss was less than $1 million

Net realized gains were less than $1 million in the three and nine months ended September 30, 2010 and 2009, respectively.

Credit Risk Related Contingent Features

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 on the Company's credit ratings from each of the major credit rating agencies. At September 30, 2010, 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. At September 30, 2010, a one notch downgrade of the Company’s credit rating would have no effect on the energy trading and risk management contracts or collateral required.

Note 5 – Fair Value Measurements

KU adopted the fair value guidance in the FASB ASC in two phases. Effective January 1, 2008, the Company adopted it for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis, and January 1, 2009, the Company adopted it for all non-financial instruments accounted for at fair value on a non-recurring basis. The FASB ASC guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, the FASB ASC guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value.

The carrying values and estimated fair values of KU's non-trading instruments:

	September 30, 2010		December 31, 2009	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term bonds (including current portion of $228 million)	$ 351	$ 352	$ 351	$ 351
Long-term debt to affiliated company (including current portion of $33 million)	1,331	1,527	1,331	1,401

The long-term bond valuations reflect prices quoted by investment banks, which are active in the market for these debt instruments. The fair value of the long-term debt due to affiliated company is determined using an internal valuation model that discounts the future cash flows of each loan at current market rates as determined based on quotes from investment banks that are actively involved in capital markets for utilities and factor in KU's credit ratings and default risk. The fair values of cash and cash equivalents, accounts receivable, cash surrender value of key man life insurance, accounts payable and notes payable are substantially the same as their carrying values.

KU 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

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company classifies its derivative cash collateral balances within level 1 based on the funds being held in a demand deposit account. The Company classifies its derivative energy trading and risk management contracts within level 2 because it values them using prices actively quoted for proposed or executed transactions, quoted by brokers or observable inputs other than quoted prices.

KU's financial assets and liabilities as of September 30, 2010 and December 31, 2009, arising from energy trading and risk management contracts accounted for at fair value on a recurring basis total less than $1 million. No cash collateral related to the energy trading and risk management contracts was required at September 30, 2010. Cash collateral related to the energy trading and risk management contracts was less than $1 million at December 31, 2009.

There were no level 3 measurements for the periods ending September 30, 2010 and December 31, 2009.

Note 6 – Pension and Other Postretirement Benefit Plans

Net Periodic Benefit Costs

The following tables provide the components of net periodic benefit cost for pension and other postretirement benefit plans. The tables include the costs associated with both KU employees and Servco employees who are providing services to KU. The Servco costs are allocated to KU based on employees' labor charges and are approximately 53% and 51% of Servco costs for September 30, 2010 and 2009, respectively.

(in millions)

	Pension Benefits Three Months Ended September 30,					
	2010			2009		
	KU	Servco Allocation to KU	Total KU	KU	Servco Allocation to KU	Total KU
Service cost	$ 2	$ 1	$ 3	$ 2	$ 1	$ 3
Interest cost	4	2	6	4	2	6
Expected return on plan assets	(5)	(2)	(7)	(3)	(1)	(4)
Amortization of prior service cost	-	1	1	-	-	-
Amortization of actuarial loss	2	1	3	2	1	3
Net periodic benefit cost	$ 3	$ 3	$ 6	$ 5	$ 3	$ 8

	Other Postretirement Benefits Three Months Ended September 30,					
	2010			2009		
	KU	Servco Allocation to KU(a)	Total KU	KU	Servco Allocation to KU(a)	Total KU
Interest cost	$ 2	$ -	$ 2	$ 1	$ -	$ 1
Net periodic benefit cost	$ 2	$ -	$ 2	$ 1	$ -	$ 1

(a) amounts are less than $1 million

	Pension Benefits Nine Months Ended September 30, 2010			2009		
	KU	Servco Allocation to KU	Total KU	KU	Servco Allocation to KU	Total KU
Service cost	$ 5	$ 4	$ 9	$ 4	$ 4	$ 8
Interest cost	14	6	20	13	5	18
Expected return on plan assets	(13)	(5)	(18)	(10)	(4)	(14)
Amortization of prior service cost	-	1	1	1	1	2
Amortization of actuarial loss	5	2	7	6	2	8
Net periodic benefit cost	$ 11	$ 8	$ 19	$ 14	$ 8	$ 22

	Other Postretirement Benefits Nine Months Ended September 30, 2010			2009		
	KU	Servco Allocation to KU	Total KU	KU	Servco Allocation to KU	Total KU
Service cost	$ 1	$ 1	$ 2	$ 1	$ 1	$ 2
Interest cost	4	-	4	3	-	3
Expected return on plan assets	(1)	-	(1)	-	-	-
Amortization of transitional obligation	1	-	1	1	-	1
Net periodic benefit cost	$ 5	$ 1	$ 6	$ 5	$ 1	$ 6

Contributions

In January 2010, KU and Servco made discretionary pension plan contributions of $13 million and $9 million, respectively. The amount of future contributions to the pension plan will depend on the actual return on plan assets and other factors, but the Company’s intent is to fund the pension plan in a manner consistent with the requirements of the Pension Protection Act of 2006.

Through September 2010, KU made contributions to other postretirement benefit plans totaling $4 million. An additional contribution totaling $1 million was made in October. The Company anticipates further funding to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Health Care Reform

In March 2010, Health Care Reform (the Patient Protection and Affordable Care Act of 2010) was signed into law. Many provisions of Health Care Reform do not take effect for an extended period of time, and many aspects of the law which are currently unclear or undefined will likely be clarified in future regulations.

During each of the three and nine months ended September 30, 2010, KU recorded an income tax expense of less than $1 million, to recognize the impact of the elimination of the tax deduction related to the Medicare Retiree Drug Subsidy that becomes effective in 2013.

Specific provisions within Health Care Reform that may impact KU include:

- Beginning in 2011, requirements extend dependent coverage up to age 26, remove the $2 million lifetime maximum and eliminate cost sharing for certain preventative care procedures.
- Beginning in 2018, a potential excise tax is expected on high-cost plans providing health coverage that exceeds certain thresholds.

KU continues to evaluate all implications of Health Care Reform on its benefit programs but at this time cannot predict the significance of those implications.

Note 7 – Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, E.ON US Investments Corp., for each tax period. Each subsidiary of the consolidated tax group, including KU, 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 2007 and later years are open under the federal statute of limitations, Revenue Agent Reports for 2006-2008 have been received from the IRS, effectively closing these years to additional audit adjustments. Tax years beginning with 2007 were examined under an IRS pilot program named "Compliance Assurance Process" ("CAP"). This program accelerates the IRS' review to begin during the year applicable to the return and ends 90 days after the return is filed. For 2008, the IRS allowed additional deductions in connection with the Company's application for a change in repair deductions and disallowed some of the bonus depreciation claimed on the original return. The net temporary tax impact for the Company was $12 million and was recorded in the second quarter of 2010. Tax years 2009 and 2010 are also being examined under CAP. The 2009 federal return was filed in the third quarter, and the IRS issued a Partial Acceptance Letter with the 2009 return. The IRS is continuing to review bonus depreciation, storms and other repairs. No material impact is expected from the IRS review. For the tax year 2010, no material items have been raised by the IRS at this time.

Additions and reductions of uncertain tax positions during 2010 and 2009 were less than $1 million. Possible amounts of uncertain tax positions for KU that may decrease within the next 12 months total less than $1 million and are based on the expiration of the audit periods as defined in the statutes. If recognized, the less than $1 million of unrecognized tax benefits would reduce the effective income tax rate.

The amount KU recognized as interest expense and interest accrued related to unrecognized tax benefits was less than $1 million as of September 30, 2010 and December 31, 2009. 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. KU records the interest as interest expense and penalties as operating expenses in the income statement and accrued expenses in the balance sheet, on a pre-tax basis. No penalties were accrued by the Company through September 30, 2010.

In June 2006, the Companies filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that KU was selected to receive $101 million in tax credits. A final IRS certification required to obtain the investment tax credits was received in August 2007. In September 2007, KU received an Order from the Kentucky Commission approving the accounting of the investment tax credits, which includes a full depreciation basis adjustment for the amount of the credits. Based on eligible construction expenditures incurred, KU recorded investment tax credits of $6 and $17 million during the three and nine months ended September 30, 2009, decreasing current federal income taxes. As of December 31, 2009 KU had recorded its maximum credit of $101 million. The income tax expense impact from amortizing these credits over the life of the related property will begin when the facility is placed in service, which is expected to occur by year end.

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. The plaintiffs voluntarily dismissed their complaint in August 2010.

A reconciliation of differences between the income tax expense at the statutory U.S. federal income tax rate and the Company's actual income tax expense follows:

(in millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Statutory federal income tax expense	$ 30	$ 37	$ 72	$ 52
State income taxes – net of federal benefit	3	4	8	4
Dividends received deduction related to EEI investment	-	-	-	(3)
Other differences – net	(1)	(2)	(4)	(4)
Income tax expense	$ 32	$ 39	$ 76	$ 49
Effective income tax rate	37.2%	37.1%	37.1%	33.1%

The amounts shown in the table above are rounded to the nearest $1 million; however, the effective income tax rates are based on actual underlying amounts. Other differences – net includes the qualified production activities deduction and excess deferred taxes on depreciation.

The effective tax rate for the nine months ended September 2010 was higher than the rate for the nine months ended 2009 due to state income taxes – net of federal benefit being lower due to a coal credit recorded in 2009 and a lower dividends received deduction primarily due to the lack of EEI dividends in 2010.

Note 8 – **Short-Term and Long-Term Debt**

KU's long-term debt includes $228 million of pollution control bonds that are classified as current portion of long-term debt 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:

(in millions)		
Mercer Co. 2000 Series A, due May 1, 2023, variable %	$	13
Carroll Co. 2002 Series A, due February 1, 2032, variable %		21
Carroll Co. 2002 Series B, due February 1, 2032, variable %		2
Carroll Co. 2008 Series A, due February 1, 2032, variable %		78
Mercer Co. 2002 Series A, due February 1, 2032, variable %		8
Muhlenberg Co. 2002 Series A, due February 1, 2032, variable %		2
Carroll Co. 2004 Series A, due October 1, 2034, variable %		50
Carroll Co. 2006 Series B, due October 1, 2034, variable %		54
	$	228

The average annualized interest rates for these bonds follow:

	September 30, 2010	September 30, 2009
Three months ended	0.37%	0.51%
Nine months ended	0.36%	0.65%

Pollution control bonds are obligations of KU issued in connection with tax-exempt pollution control bonds issued by counties in Kentucky. A loan agreement obligates the Company to make debt service payments to the counties that equate to the debt service due from the counties on the related pollution control bonds. The loan agreement is an unsecured obligation of the Company. Debt issuance expense is capitalized in either regulatory assets or current or long-term other assets and amortized over the lives of the related bond issues, consistent with regulatory practices.

In October 2010, KU's pollution control bonds were converted from unsecured debt to debt which is collateralized by first mortgage bonds. Also in October 2010, one national rating agency revised downward the short-term credit rating of the pollution control bonds and the Company's issuer rating as a result of the pending acquisition by PPL.

Several of the KU 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, 2010, KU had an aggregate $351 million of outstanding pollution control indebtedness, of which $96 million is in the form of insured auction rate securities wherein interest rates are reset 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. Since 2008, 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.

The average annualized interest rates on the auction rate bonds follow:

	September 30, 2010	September 30, 2009
Three months ended	0.61%	0.34%
Nine months ended	0.50%	0.51%

The instruments governing these auction rate bonds permit KU to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In June 2009, one national rating agency downgraded the credit rating of an insurer of the Company’s bonds. As a result, the national rating agency downgraded the rating on the Carroll County 2002 Series C bond. The national agency’s rating of this bond is now based on the rating of the Company rather than the rating of the insurer since the Company’s rating is higher.

The Company participates in an intercompany money pool agreement wherein E.ON U.S. and/or LG&E make funds available to KU at market-based rates (based on highly rated commercial paper issues) 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, 2010	$ 400	$ 61	$ 339	0.28%
December 31, 2009	$ 400	$ 45	$ 355	0.20%

E.ON U.S. maintained revolving credit facilities totaling $313 million at September 30, 2010 and December 31, 2009, to ensure funding availability for the money pool. At September 30, 2010, one facility, totaling $150 million, was with E.ON North America, Inc. while the remaining line, totaling $163 million, was with Fidelia; both are affiliated companies. The balances are as follows:

(in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
September 30, 2010	$ 313	$ 181	$ 132	1.44%
December 31, 2009	$ 313	$ 276	$ 37	1.25%

As of September 30, 2010, the Company maintained a $35 million bilateral line of credit, maturing in June 2012, with an unaffiliated financial institution. At September 30, 2010, there was no balance outstanding under this facility. The Company also maintains letter of credit facilities that support $195 million of the $228 million of bonds that can be put back to the Company. Should the holders elect to put the bonds back and they cannot be remarketed, the letter of credit would fund the investor’s payment.

There were no redemptions or issuances of long-term debt year-to-date through September 30, 2010. KU was in compliance with all debt covenants at September 30, 2010 and December 31, 2009. See Note 1, General, for certain debt refinancing and associated transactions which are anticipated by KU in connection with the PPL acquisition and Note 10, Related Party Transactions, for long-term debt payable to affiliates.

Note 9 – Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2, Rates and Regulatory Matters), 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, 2009 (including, but not limited to Note 2, Rates and Regulatory Matters; Note 9, Commitments and Contingencies; and Note 12, Subsequent Events, contained therein). See the Company's Annual Report regarding such commitments or contingencies.

Letters of Credit

KU has provided letters of credit as of September 30, 2010 and December 31, 2009, for on-balance sheet obligations totaling $198 million to support bonds of $195 million and a letter of credit for off-balance sheet obligations totaling less than $1 million to support certain obligations related to workers' compensation.

Owensboro Contract Litigation and Contract Termination

In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. In May 2009, KU and OMU executed a settlement agreement resolving the matter on a basis consistent with prior court rulings, and the Company has received the agreed settlement amounts. Pursuant to the settlement's operation, the OMU agreement terminated in May 2010. In connection with such termination, KU has recorded a net receivable totaling $4 million reflecting its estimate of remaining adjustments concerning prior accruals. The parties are engaged in discussions to resolve those remaining adjustments.

Construction Program

KU had approximately $167 million of commitments in connection with its construction program at September 30, 2010.

In June 2006, the Companies 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. During 2009 and 2010, the Companies received several contractual notices from the TC2 construction contractor asserting historical force majeure and excusable event claims for a number of adjustments to the contract price, construction schedule, commercial operations date, liquidated damages or other relevant provisions. In September 2010, the Companies and construction contractor agreed to a settlement to resolve certain force majeure and excusable event claims occurring through July 2010, under the TC2 construction contract, which settlement provided for a limited, negotiated extension of the contractual commercial operations date and/or relief from liquidated damages calculations. During commissioning activities in the second and third quarters, separate delays have occurred related to burner malfunctions and an excitation transformer failure. Certain temporary or permanent repairs for both matters have been completed, are underway or are planned for appropriate future outage periods. Commissioning steps resumed in October 2010, and a revised commercial operations date is currently expected by year end. The parties are analyzing the treatment of these additional delays under the liquidated damages provisions of the construction agreement. The Companies cannot currently estimate the ultimate outcome of these matters, including the extent, if any, that such outcome may result in materially increased costs for the construction of TC2, further changes in the TC2 construction completion or commercial operation dates or potential effects on levels of power purchases or wholesale sales due to such changed dates.

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. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order upholding the permit. The environmental groups petitioned the EPA to object to the state permit and subsequent permit revisions. In determinations made in September 2008 and June 2009, the EPA rejected most of the environmental groups' claims, but identified three permit deficiencies which the KDAQ addressed by revising the permit. In August 2009, the EPA issued an Order denying the remaining claims with the exception of two additional deficiencies which the KDAQ was directed to address. The EPA determined that the proposed permit subsequently issued by the KDAQ satisfied the conditions of the EPA Order although the agency recommended certain enhancements to the administrative record. In January 2010, the KDAQ issued a final permit revision incorporating the proposed changes to address the EPA objections. In March 2010, the environmental groups submitted a petition to the EPA to object to the permit revision, which is now pending before the EPA. The Company believes that the final permit as revised should not have a material adverse effect on its financial condition or results of operations. However, until the EPA issues a final ruling on the pending petition and all applicable appeals have been exhausted, the Company cannot predict the final outcome of this matter.

Thermostat Replacement

During January 2010, the Companies announced a voluntary plan to replace certain thermostats, which had been provided to customers as part of the Companies' demand reduction programs, due to concerns that the thermostats may present a safety hazard. Under the plan, the Companies have replaced approximately 90% of the estimated 14,000 thermostats that need to be replaced. Total estimated costs associated with the replacement program are $2 million. However, the Companies cannot fully predict the ultimate outcome of the replacement program or other effects or developments which may be associated with the thermostat replacement matter at this time.

OVEC

KU holds a 2.5% investment interest in OVEC with 10 other electric utilities. KU is not the primary beneficiary; therefore the investment is not consolidated into the Company's financial statements, but is recorded on the cost basis. OVEC is located in Piketon, Ohio, and owns and operates two coal-fired power plants, Kyger Creek Station in Ohio, and Clifty Creek Station in Indiana. KU is contractually entitled to 2.5% of OVEC's output, approximately 55 Mw of generation capacity. Pursuant to the OVEC power purchase contract, the Company may be conditionally responsible for a 2.5% pro-rata share of certain obligations of OVEC under defined circumstances. These contingent liabilities may include unpaid OVEC indebtedness as well as shortfall amounts in certain excess decommissioning costs and post-retirement benefits other than pension. KU's potential proportionate share of OVEC's September 30, 2010 outstanding debt was $35 million.

Environmental Matters

The Company's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. As indicated below and summarized at the conclusion of this section, evolving environmental regulations will likely increase the level of capital and operating and maintenance expenditures incurred by the Company during the next several years. Based on prior regulatory precedent, the Company believes that many costs of complying with such pending or future requirements would likely be recoverable under the ECR or other potential cost-recovery mechanisms, but the Company can provide no assurance as to the ultimate outcome of such proceedings before the regulatory authorities.

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.

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. 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.

In January 2010, the EPA proposed a revised NAAQS for ozone which would increase the stringency of the standard. In addition, the EPA published final revised NAAQS standards for nitrogen dioxide ("NO_2") and SO_2 in February 2010 and June 2010, respectively, which are more stringent than previous standards. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the revised NAAQS standards, KU's power plants are potentially subject to requirements for additional reductions in SO_2 and NOx emissions.

In July 2010, the EPA issued the proposed CATR, which serves to replace the CAIR. The CATR provides for a two-phase SO_2 reduction program with Phase I reductions due by 2012, and Phase II reductions due by 2014. The CATR provides for NOx reductions in 2012, but the EPA advised that it is studying whether additional NOx reductions should be required for 2014. The CATR is more stringent than the CAIR as it accelerates certain compliance dates and provides for only intrastate and limited interstate trading of emission allowances. In addition to its preferred approach, the EPA is seeking comment on an alternative approach which would provide for individual emission limits at each power plant. The EPA has announced that it will propose additional "transport" rules to address compliance with revised NAAQS standards for ozone and particulate matter which will be issued by the EPA in the future, as discussed below.

Hazardous Air Pollutants. As provided in 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 February 2008, a federal appellate court issued a decision vacating the CAMR. The EPA has entered into a consent decree requiring it to promulgate a utility Maximum Achievable Control Technology rule to replace the CAMR with a proposed rule due by March 2011, and a final rule due by November 2011. Depending on the final outcome of the rulemaking, the CAMR could be replaced by new rules with different or more stringent requirements for reduction of mercury and other hazardous air pollutants. Kentucky has also repealed its corresponding state mercury regulations.

Acid Rain Program. 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 Clean Air Act also contains 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 the 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. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's strategy for its Phase II SO_2 requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as, using accumulated emission allowances and fuel switching to defer certain additional capital expenditures. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, KU installed additional NOx controls, including SCR technology, during the 2000 through 2009 time period at a cost of $221 million. In 2001, the Kentucky Commission granted approval to recover the costs incurred by KU for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve currently mandated emissions reductions, KU expects to incur additional capital expenditures totaling approximately $285 million during the 2010 through 2012 time period for pollution controls including FGD and SCR equipment and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by the Company for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. KU believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU’s compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner. 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, 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 met 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. In Copenhagen, the U.S. made a nonbinding commitment to, among other things, seek to reduce GHG emissions to 17% below 2005 levels by 2020 and provide financial support to developing countries. The United States and other nations are scheduled to meet in Cancun, Mexico in late 2010 to continue negotiations toward a binding agreement.

GHG Legislation. KU 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. 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.

In September 2009, the Clean Energy Jobs and American Power Act, 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 incorporated allowance allocation provisions similar to the House bill. In 2010, Senators Kerry and Lieberman and others have undertaken additional work to draft GHG legislation but have introduced no bill in the Senate to date. In July 2010, Senate Majority Leader Reid announced that he did not anticipate that GHG legislation would be brought to the Senate floor in the current session. The Company is closely monitoring the progress of pending energy legislation, but 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 endanger public health and welfare, which is an initial rulemaking step under the Clean Air Act. A final endangerment finding was issued in December 2009. 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. In May 2010, the EPA issued a final GHG "tailoring" rule requiring new or modified sources with GHG emissions equivalent to at least 75,000 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 rule. The final rule will apply to new and modified power plants beginning in January 2011. The Company is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted through legislation or regulations.

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, a three judge panel of 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. In March 2010, the court vacated the opinion of the three-judge panel and granted a motion for rehearing but subsequently denied the appeal due to the lack of a quorum. The appellate ruling leaves in effect the lower court ruling dismissing the plaintiffs' claims. The petitioners filed a petition for a writ of mandamus with the Supreme Court in August 2010. 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 indirect parent of the Companies, was included as a 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. The Companies are currently unable to predict further developments in the Comer case and continue to monitor relevant GHG litigation to identify judicial developments that may be potentially relevant to their operations.

Ghent Opacity NOV. In September 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's operating rules relating to opacity during June and July of 2007 at Units 1 and 3 of KU's Ghent generating station. The parties have met on this matter and KU has received no further communications from the EPA. The Company is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result.

Ghent New Source Review NOV. In March 2009, the EPA issued an NOV alleging that KU violated certain provisions of the Clean Air Act's rules governing new source review and prevention of significant deterioration by installing FGD and SCR controls at its Ghent generating station without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. In December 2009, the EPA issued a Section 114 information request seeking additional information on this matter. In March 2010, the Company received an EPA settlement proposal providing for imposition of additional permit limits and emission controls and anticipates continued settlement negotiations with the EPA. Depending on the provisions of a final settlement or the results of litigation, if any, resolution of this matter could involve significant increased operating and capital expenditures. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination on the Company's financial position or results of operations.

Ash Ponds and Coal-Combustion Byproducts. 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 KU, 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 KU's impoundments, which the EPA found to be in satisfactory condition. In June 2010, the EPA published proposed regulations for coal combustion byproducts handled in landfills and ash ponds. The EPA has proposed two alternatives: (1) regulation of coal combustion byproducts in landfills and ash ponds as a hazardous waste or (2) regulation of coal combustion byproducts as a solid waste with minimum national standards. Under both alternatives, the EPA has proposed safety requirements to address the structural integrity of ash ponds. In addition, the EPA will consider potential refinements of the provisions for beneficial reuse of coal combustion byproducts.

Water Discharges and PCB Regulations. The EPA has also announced plans to develop revised effluent limitation guidelines governing discharges from power plants and standards for cooling water intake structures. The EPA has further announced plans to develop revised standards governing the use of polychlorinated biphenyls ("PCB") in electrical equipment. The Company is monitoring these ongoing regulatory developments but will be unable to determine the impact until such time as new rules are finalized.

Impact of Pending and Future Environmental Developments. As a company with significant coal-fired generating assets, KU will likely be substantially impacted by pending or future environmental rules or legislation requiring mandatory reductions in GHG emissions or other air emissions, imposing more stringent standards on discharges to waterways, or establishing additional requirements for handling or disposal of coal combustion byproducts. These evolving environmental regulations will likely require an increased level of capital expenditures and increased incremental operating and maintenance costs by the Company over the next several years. Due to the uncertain nature of the final regulations that will ultimately be adopted by the EPA, including the reduction targets and the deadlines that will be applicable, the Company cannot finalize estimates of the potential compliance costs, but should the final rules incorporate additional emission reduction requirements, require more stringent emissions controls or implement more stringent byproducts storage and disposal practices, such costs will likely be significant. With respect to NAAQS, CATR, CAMR replacement and coal combustion byproducts developments, based on a preliminary analysis of proposed regulations, the Company may be required to consider actions such as upgrading existing emissions controls, installing additional emissions controls, upgrading byproducts disposal and storage and possible early replacement of coal-fired units. Capital expenditures for KU associated with such actions are preliminarily estimated to be in the $1.7 billion range over the next 10 years, although final costs may substantially vary. With respect to potential developments in water discharge, revised PCB standards or GHG initiatives, costs in such areas cannot be estimated due to the preliminary status or uncertain outcome of such developments, but would be in addition to the above amount and could be substantial. Ultimately, the precise impact on the Company's operations of these various environmental developments cannot be determined prior to the finalization of such requirements. Based on prior regulatory precedent, the Company believes that many costs of complying with such pending or future requirements would likely be recoverable under the ECR or other potential cost-recovery mechanisms, but the Company can provide no assurance as to the ultimate outcome of such proceedings before the regulatory authorities.

TC2 Water Permit. In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County generating station. In October 2010, the hearing officer issued a report and recommended order providing for dismissal of the claims raised by the petitioners. Until such time as the Secretary issues a final order of the agency and all appeals are exhausted, the Company is unable to predict the outcome or precise impact of this matter.

General Environmental Proceedings. From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include a prior Section 114 information request from the EPA relating to new-source issues at KU's Ghent unit 2; completed settlement with state regulators regarding compliance with particulate limits in the air permit for KU's Tyrone generating station; remediation activities for or other risks relating to elevated PCB levels at existing properties; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; and claims regarding the GHG emissions from the Company's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the Company's operations.

Note 10 – Related Party Transactions

KU, subsidiaries of E.ON U.S. and subsidiaries of E.ON engage in related party transactions. Transactions between KU and E.ON U.S. subsidiaries are eliminated on consolidation of E.ON U.S. Transactions between KU and E.ON subsidiaries are eliminated on 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 and Virginia Commission regulations. The significant related party transactions are disclosed below.

Intercompany Wholesale Sales and Purchases

KU and LG&E jointly dispatch their generation units with the lowest cost generation used to serve their retail native load. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail native load and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are recorded as intercompany wholesale sales and purchases are recorded by each company at a price equal to the seller's fuel cost. Savings realized from purchasing electricity intercompany instead of generating from their own higher costs units or purchasing from the market are shared equally between the two Companies. The volume of energy each company has to sell to the other is dependent on its native load needs and its available generation.

These sales and purchases are included in the statements of income as operating revenues, power purchased expenses and other operation and maintenance expenses. KU's intercompany electric revenues and power purchased expense were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2010	2009	2010	2009
Electric operating revenues from LG&E	$ 3	$ 2	$ 13	$ 18
Power purchased and related operations and maintenance expenses from LG&E	22	22	71	82

Interest Charges

See Note 8, Short-Term and Long-Term Debt, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

KU's interest expense to affiliated companies was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2010	2009	2010	2009
Interest on Fidelia loans	$ 18	$ 18	$ 55	$ 51

Interest expense paid to E.ON U.S. on the money pool arrangement was less than $1 million for the three and nine months ended September 30, 2010 and 2009.

Dividends

In September 2010, the Company paid dividends of $50 million to its common shareholder, E.ON U.S.

Capital Contributions

In March and June 2009, the Company received capital contributions of $50 million and $25 million, respectively, from its common shareholder, E.ON U.S.

Other Intercompany Billings

Servco provides the Company with a variety of centralized administrative, management and support services. These services include payroll taxes paid by Servco on behalf of KU, labor and burdens of Servco employees performing services for KU, coal purchases and other vouchers paid by Servco on behalf of KU. The cost of these services is directly charged to the Company, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and other statistical information. These costs are charged on an actual cost basis.

In addition, the Companies provide services to each other and to Servco. Billings between the Companies 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 KU to Servco include cash received by Servco on behalf of KU, primarily tax settlements, and other payments made by the Company on behalf of other non-regulated businesses which are reimbursed through Servco.

Intercompany billings to and from KU were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2010	2009	2010	2009
Servco billings to KU	$ 64	$ 43	$ 181	$ 121
KU billings to LG&E	-	16	1	63
LG&E billings to KU	28	-	47	-
KU billings to Servco	11	3	11	5

Intercompany Balances

The Company had the following balances with its affiliates:

(in millions)	September 30, 2010	December 31, 2009
Accounts receivable from E.ON U.S.	$ -	$ 9
Accounts payable to LG&E	17	53
Accounts payable to Servco	18	20
Accounts payable to E.ON U.S.	18	-
Accounts payable to Fidelia	18	15
Notes payable to E.ON U.S.	61	45
Long-term debt to Fidelia (including current portion of $33 million)	1,331	1,331

Note 11 – Subsequent Events

Subsequent events have been evaluated through October 29, 2010, the date of issuance of these statements, and these statements contain all necessary adjustments and disclosures resulting from that evaluation.

On October 29, 2010, KU's pollution control bonds were converted from unsecured debt to debt which is collateralized by first mortgage bonds. See Note 1, General, and Note 8, Short-Term and Long-Term Debt.

On October 26, 2010, the FERC issued an Order approving the acquisition of E.ON U.S. by PPL. See Note 1, General.

On October 19, 2010 and October 21, 2010, respectively, the Virginia Commission and Tennessee Regulatory Authority issued Orders approving the acquisition of E.ON U.S. by PPL. On the same dates, KU received Virginia Commission and Tennessee Regulatory Authority approvals to complete certain refinancing transactions in connection with the anticipated PPL acquisition and other business factors. See Note 1, General, and Note 8, Short-Term and Long-Term Debt.

Management's Discussion and Analysis

Overview

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU provides electric service to approximately 515,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 29,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee. KU's service area covers approximately 6,600 noncontiguous square miles. Approximately 99% of the electricity generated by KU is produced by its coal-fired electric generating stations. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled combustion turbines. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

KU is a wholly-owned subsidiary of E.ON U.S., an indirect wholly-owned subsidiary of E.ON, a German corporation. KU's affiliate, LG&E, 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 in Kentucky.

The following discussion and analysis by management focuses on those factors that had a material effect on KU's financial results of operations and financial condition during the three and nine months ended September 30, 2010, and should be read in connection with the condensed financial statements and notes thereto and the Annual Report for the year ending December 31, 2009. Dollars are in millions unless otherwise noted.

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, 2009.

PPL Acquisition

See Note 1, General, for information regarding the acquisition of E.ON U.S. by PPL, settlement agreements in change of control proceedings, closing conditions and anticipated financing transactions.

Regulatory Matters

See Note 2, Rates and Regulatory Matters, for information regarding rate cases, regulatory assets and liabilities and other regulatory matters.

Environmental Matters

General

Protection of the environment is a major priority for KU and a significant element of its business activities. KU's properties and operations are subject to extensive environmental-related oversight by federal, state and local regulatory agencies, including via air quality, water quality, waste management and similar laws and regulations. Therefore, KU must conduct its operations in accordance with numerous permit and other requirements issued under or contained in such laws or regulations.

Climate Change

Recent developments continue to indicate an increased possibility of significant climate change or GHG legislation or regulation, at the international, federal, regional and state levels. During December 2009, as part of the United Nation's Copenhagen Accord, the United States agreed to a non-binding goal to reduce GHG emissions to 17% below 2005 levels by 2020. Additionally, during 2009, the U.S. House of Representatives passed comprehensive GHG legislation, which included a number of measures to limit GHG emissions and achieve GHG emission reduction targets below 2005 levels of 3% by 2012, 17% by 2020 and 83% by 2050. Similar legislation has been considered in the U.S. Senate, but the prospects for passage remain uncertain. In late 2009, the EPA issued or proposed various regulatory initiatives relating to GHG matters, including an endangerment finding relating to mobile sources of GHGs, a GHG reporting requirement and a rule relating to permitting requirements for new or modified GHG emission sources. Finally, a number of U.S. states, although not currently including Kentucky, have adopted GHG-reduction legislation or regulation of various sorts. The developing GHG initiatives include a number of differing structures and formats, including direct limitations on GHG sources, issuance of allowances for GHG emissions, cap-and-trade programs for such allowances, renewable or alternative generation portfolio standards and mechanisms relating to demand reduction, energy efficiency, smart-grid, transmission expansion, carbon-sequestration or other GHG-reducing efforts. While the final terms and impacts of such initiatives cannot be estimated, KU, as a primarily coal-fired utility, could be highly affected by such proceedings.

Other Environmental Regulatory Initiatives

Additionally, the EPA has proposed or announced that it intends to propose a number of additional environmental regulations that could substantially impact utilities with coal-fired generating assets. These regulatory initiatives include revisions to the ambient air quality standards for SO_2, NO_2, ozone, and particulate matter 2.5 microns in size or less, rules aimed at mitigating the interstate transport of SO_2 and NOx, a program governing emissions of hazardous air pollutants from utility generating units, a program for the management of coal combustion residuals, revised effluent guidelines for utility generating facilities and standards for water intake structures. Such requirements could potentially mandate upgrade of existing emission controls, installation of additional emission controls such as FGDs, SCRs, fabric filter bag houses, activated carbon injection, wet electrostatic precipitators, closure of ash ponds and retrofit of landfills, installation of cooling towers, deployment of new water treatment technologies and retirement of facilities that cannot be retrofitted on a cost effective basis.

The cost to KU and the effect on KU's business of complying with potential GHG restrictions and other environmental regulatory initiatives will depend on the details of the programs ultimately enacted. Some of the design elements which may have the greatest effect on KU include (a) the required levels and timing of emissions caps, discharge limits or similar standards (b) the sources covered by such requirements, (c) transition and mitigation provisions, such as phase-in periods, free allowances or price caps, (d) the availability and pricing of relevant mitigation or control technologies, goods or services and (e) economic, market and customer reaction to electricity price and demand changes due to environmental concerns.

Ultimately, environmental matters or potential environmental matters can represent an important element of current or future potential capital requirements, future unit retirement or replacement decisions, supply and demand for electricity, operating and maintenance expenses or compliance risks for the Company. Base on prior regulatory precedent, KU currently anticipates that many of such direct costs may be recoverable through rates or other regulatory mechanisms, particularly with respect to coal-related generation, but the availability, timing or completeness of such rate recovery cannot be assured. Ultimately, climate change and other environmental matters will likely increase the level of capital expenditures and operating and maintenance costs incurred by the Company during the next several years. With respect to NAAQS, CATR, CAMR replacement and coal combustion byproducts developments, based on a preliminary analysis of proposed regulations, the Company may be required to consider actions such as upgrading existing emissions controls, installing additional emissions controls, upgrading byproducts disposal and storage and possible early replacement of coal-fired units. Capital expenditures for KU associated with such actions are preliminarily estimated to be in the $1.7 billion range over the next 10 years, although final costs may substantially vary. See Management's Discussion and Analysis and Note 9, Commitments and Contingencies, for additional information.

Results of Operations

The electric utility business is affected by seasonal temperatures. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year.

Three Months Ended September 30, 2010, Compared to
Three Months Ended September 30, 2009

Net Income

Net income was $54 million for the three months ended September 30, 2010, compared to $66 million for the same period in 2009. The decrease was primarily the result of the following:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Increase (Decrease)
Total operating revenues	$ 416	$ 341	$ 75
Total operating expenses	311	216	95
Operating income	105	125	(20)
Interest expense to affiliated companies	18	18	-
Other income (expense) – net	(1)	(2)	1
Income before income taxes	86	105	(19)
Income tax expense	32	39	(7)
Net income	$ 54	$ 66	$ (12)

Operating Revenues

The $75 million increase in operating revenues in the three months ended September 30, 2010, was primarily due to:

	Increase (Decrease)
Retail sales volumes (a)	$ 40
Retail base rates (b)	14
ECR surcharge due to increased recoverable capital spending	10
Retail FAC costs billed to customers due to higher fuel prices	6
Other	5
	$ 75

(a) Primarily due to increased consumption by residential customers as a result of increased cooling degree days and higher energy usage by industrial customers as a result of improved economic conditions and increased cooling degree days.

(b) Primarily due to higher rates effective August 1, 2010. See Note 2, Rates and Regulatory Matters, for further discussion of the 2010 Kentucky rate case.

Operating Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC. Operating expenses follow:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Increase (Decrease)
Fuel for electric generation	$ 146	$ 114	$ 32
Power purchased	41	47	(6)
Other operation and maintenance expenses	86	22	64
Depreciation, accretion and amortization	38	33	5
Total operating expenses	$ 311	$ 216	$ 95

Fuel for Electric Generation

The $32 million increase in fuel for electric generation in the three months ended September 30, 2010, was primarily due to increased volumes of fuel usage due to increased retail sales volumes.

Power Purchased

The $6 million decrease in power purchased expense in the three months ended September 30, 2010, was primarily due to:

	Increase (Decrease)
Third-party purchased volumes for native load	$ (8)
Demand payments for third-party purchase	(4)
Prices for purchases used to serve retail customers	6
	$ (6)

Other Operation and Maintenance Expenses

Other operation and maintenance expenses increased $64 million in the three months ended September 30, 2010, due to $55 million of increased maintenance expenses, and $9 million of increased other operation expenses. These increases were primarily due to distribution expenses ($53 million related to maintenance and $4 million related to other operations) incurred in the first quarter of 2009 for wind and ice storm restoration that were reclassified to a regulatory asset in the third quarter of 2009.

Income Tax Expense

See Note 7, Income Taxes, for a reconciliation of differences between the U.S. federal income tax expense at statutory rates and KU's income tax expense.

Nine Months Ended September 30, 2010, Compared to
Nine Months Ended September 30, 2009

Net Income

Net income was $129 million for the nine months ended September 30, 2010, compared to $99 million for the same period in 2009. The increase was primarily the result of the following:

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Increase (Decrease)
Total operating revenues	$ 1,146	$ 1,009	$ 137
Total operating expenses	883	812	71
Operating income	263	197	66
Interest expense to affiliated companies	55	51	4
Other income (expense) – net	(3)	2	(5)
Income before income taxes	205	148	57
Income tax expense	76	49	27
Net income	$ 129	$ 99	$ 30

Operating Revenues

The $137 million increase in operating revenues in the nine months ended September 30, 2010, was primarily due to:

	Increase (Decrease)
Retail sales volumes (a)	$ 98
Retail base rates (b)	14
ECR surcharge due to increased recoverable capital spending	10
Miscellaneous operating revenue (c)	8
DSM revenue due to increased recoverable program spending	6
Other	1
	$ 137

(a) Primarily due to increased consumption by residential customers as a result of increased cooling and heating degree days and higher energy usage by industrial customers as a result of improved economic conditions and increased cooling and heating degree days.
(b) Primarily due to higher rates effective August 1, 2010. See Note 2, Rates and Regulatory Matters, for further discussion of the 2010 Kentucky rate case.
(c) Primarily related to increased late payment charges and transmission service revenues.

Operating Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC. Operating expenses follow:

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Increase (Decrease)
Fuel for electric generation	$ 391	$ 329	$ 62
Power purchased	135	154	(19)
Other operation and maintenance expenses	251	230	21
Depreciation, accretion and amortization	106	99	7
Total operating expenses	$ 883	$ 812	$ 71

Fuel for Electric Generation

The $62 million increase in fuel for electric generation in the nine months ended September 30, 2010, was primarily due to:

	Increase (Decrease)
Fuel usage volumes due to increased native load and wholesale sales	$ 73
Commodity and transportation costs for coal	(11)
	$ 62

Power Purchased

The $19 million decrease in power purchased expense in the nine months ended September 30, 2010, was primarily due to:

	Increase (Decrease)
Third-party purchased volumes for native load	$ (16)
Purchases from LG&E due to volume (a)	(13)
Demand payments for third-party purchases	(5)
Prices for purchases used to serve retail customers	7
OMU settlement received in 2009 (b)	6
Purchases from LG&E due to fuel costs	2
	$ (19)

(a) Primarily due to increased consumption by residential customers at LG&E as a result of increased cooling and heating degree days and increased coal-fired generation outages in the first six months of 2010 and higher energy usage by industrial customers as a result of improved economic conditions and increased cooling and heating degree days. See Note 10, Related Party Transactions, for further discussion of the mutual agreement for wholesale sales and purchases between the Companies.

(b) See Note 9, Commitments and Contingencies, for further discussion of the OMU settlement.

Other Operation and Maintenance Expenses

Other operation and maintenance expenses increased $21 million in the nine months ended September 30, 2010, due to $19 million of increased other operation expenses and $2 million of increased maintenance expenses.

Other Operation Expenses

The $19 million increase in other operation expenses in the nine months ended September 30, 2010, was primarily due to:

	Increase (Decrease)
Transmission expense (a)	$ 7
Administrative and general (b)	6
Steam expense due to increased generation in 2010	5
Other	1
	$ 19

(a) Primarily due to transmission expense for a third party pursuant to a settlement agreement, the establishment of a regulatory asset approved by the Kentucky Commission for the EKPC settlement in 2009, net of nine months of amortization expense recorded in 2010, and increased transmission expense due to transmission charges for FERC jurisdictional municipal customers now unbundled from energy.

(b) Primarily due to increased bad debt expense due to higher billed revenues, implementation of a late payment charge and a higher net charge-off percentage, increased labor costs, and increased insurance cost.

Interest Expense to Affiliated Companies

The $4 million increase in interest expense to affiliated companies in the nine months ended September 30, 2010, was primarily due to increased intercompany notes outstanding.

Income Tax Expense

See Note 7, Income Taxes, for a reconciliation of differences between the U.S. federal income tax expense at statutory rates and KU’s income tax expense.

Financial Condition

Liquidity and Capital Resources

	September 30, 2010	December 31, 2009
Cash and cash equivalents	$ 2	$ 2
Current portion of long-term debt	228	228
Current portion of long-term debt to affiliated company	33	33
Notes payable to affiliated company	61	45

Activity in KU's cash and cash equivalents in the nine months ended September 30, 2010, included the following:

	Increase (Decrease)
Cash provided by operating activities	$ 300
Construction expenditures	(218)
A net increase in short-term borrowings from affiliated company	16
Expenditures to purchase assets from affiliate	(48)
Payment of dividends	(50)
	$ -

Working Capital Deficiency

As of September 30, 2010, KU had a working capital deficiency of $205 million, primarily due to the terms of certain tax-exempt bonds totaling $228 million, which allow the investors to put the bonds back to the Company causing them to be classified as current portion of long-term bonds. The Company has adequate liquidity facilities to repurchase any bonds put back to the Company. Working capital deficiencies can be funded through an intercompany money pool agreement through bilateral lines of credit or drawings under letters of credit. See Note 8, Short-Term and Long-Term Debt. KU believes that its sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

Auction Rate Securities

Auctions for auction rate securities issued by KU continued to fail during the quarter. KU did not hold any of its own auction rate securities at September 30, 2010 and December 31, 2009. See Note 8, Short-Term and Long-Term Debt, for further discussion of auction rate securities.

Debt

Regulatory approvals are required for KU to incur additional debt. The Virginia Commission and the FERC authorize the issuance of short-term debt while the Kentucky Commission, the Virginia Commission and the Tennessee Regulatory Authority authorize the issuance of long-term debt. In November 2009, KU received a two-year authorization from the FERC to borrow up to $400 million in short-term funds. KU also has authorization from the Virginia Commission that expires at the end of 2011, allowing short-term borrowing of up to $400 million. These short-term funds are made available via the Company's participation in an intercompany money pool agreement wherein E.ON U.S. and/or LG&E make funds available to KU at market-based rates (based on highly rated commercial paper issues) up to $400 million.

See Note 1, General, for information on PPL related financing and Note 8, Short-Term and Long-Term Debt, for information on redemptions, maturities and issuances of long-term debt.

Common Stock Dividends

In September 2010, the Company paid dividends of $50 million to its common shareholder, E.ON U.S. KU uses net cash generated from its operations and external financing (including financing from affiliates) to fund the payment of dividends. Future dividends, declared at the discretion of the Board of Directors, will be dependent on future earnings, financial requirements and other factors.

Credit Ratings

KU's credit ratings reflect the views of two national rating agencies. 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. In October 2010, one national rating agency revised downward the short-term credit rating of the pollution control bonds and the Company's issuer rating as a result of the pending acquisition by PPL. See Note 8, Short-Term and Long-Term Debt, for a discussion of downgrade actions related to the pollution control bonds caused by a change in the rating of the entity insuring those bonds.

KU has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, which contain provisions requiring KU to post additional collateral or permit the counterparty to terminate the contract if KU's credit rating were to fall below investment grade. At September 30, 2010, KU had no open positions under these contracts that would require the Company to post collateral to counterparties if KU's credit rating had been downgraded below investment grade for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations.

Future Capital Requirements

KU’s construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed, and appropriate revisions are made, when necessary, in construction schedules. KU expects its capital expenditures for the three year period ending December 31, 2012, to total approximately $1.1 billion, consisting primarily of the following:

Construction of generation assets	$	305
Construction of distribution assets		245
Ash pond and landfill projects		210
Brown SCR		155
Installation of FGDs on Ghent and Brown units		125
Information technology projects		35
Other projects		25
Construction of TC2 (includes $5 million for environmental controls)		25
	$	1,125

In addition to the amounts in the table shown above, evolving environmental regulations will likely increase the level of capital expenditures above the amounts currently expected over the next several years. With respect to NAAQS, CATR, CAMR replacement and coal combustion byproducts developments, based on a preliminary analysis of proposed regulations, the Company may be required to consider actions such as upgrading existing emissions controls, installing additional emissions controls, upgrading byproducts disposal and storage and possible early replacement of coal-fired units. Capital expenditures for KU associated with such actions are preliminarily estimated to be in the $1.7 billion range over the next 10 years, although final costs may substantially vary. See Note 9, Commitments and Contingencies, for further discussion of environmental matters. 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 KU and LG&E fund their capital requirements. KU and LG&E anticipate funding future capital requirements through operating cash flow, debt and/or infusions of capital from their parent.

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 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 condensed 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.

As of December 31, 2009, KU 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, 2009, 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, 2009, the Company's internal control over financial reporting was effective based on those criteria. There have been no changes in the Company's internal control over financial reporting that occurred during the nine months ended September 30, 2010, 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, 2009, was audited by PricewaterhouseCoopers LLP, an independent accounting firm, as stated in its report which is included in the 2009 KU Annual Report.

Legal Proceedings

For a description of the significant legal proceedings, including, but not limited to, certain rates and regulatory, environmental, climate change and litigation matters, involving KU, reference is made to the information under the following captions of the Company's Annual Report for the year ended December 31, 2009: 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 Note 2, Rates and Regulatory Matters; Note 9, Commitments and Contingencies; and Note 11, Subsequent Events, 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, 2009, have not materially changed.

Other

In the normal course of business, other lawsuits, claims, environmental actions and other governmental proceedings arise against KU. To the extent that damages are assessed in any of these lawsuits, 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.

Kentucky Utilities Company

Condensed Financial Statements and Additional Information

(Unaudited)

As of June 30, 2010 and December 31, 2009
and for the three-month and six-month periods ended
June 30, 2010 and 2009

INDEX OF ABBREVIATIONS

AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CATR	Clean Air Transport Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
CMRG	Carbon Management Research Group
Companies	KU and LG&E
Company	KU
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EEI	Edison Electric Institute
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
EPAct 2005	Energy Policy Act of 2005
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
GHG	Greenhouse Gas
IRS	Internal Revenue Service
KCCS	Kentucky Consortium for Carbon Storage
KDAQ	Kentucky Division for Air Quality
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LG&E	Louisville Gas and Electric Company
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
NOV	Notice of Violation
NOx	Nitrogen Oxide
OMU	Owensboro Municipal Utilities
PPL	PPL Corporation
S&P	Standard & Poor’s Ratings Services
SCR	Selective Catalytic Reduction
SERC	SERC Reliability Corporation
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC1	Trimble County Unit 1
TC2	Trimble County Unit 2
Virginia Commission	Virginia State Corporation Commission

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PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
500 West Main Street
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Report of Independent Accountants

To Shareholder of Kentucky Utilities Company:

We have reviewed the accompanying condensed balance sheet of Kentucky Utilities Company as of June 30, 2010, and the related condensed statements of income and retained earnings for the three-month and six-month periods ended June 30, 2010 and 2009 and the condensed statement of cash flows for the six-month periods ended June 30, 2010 and 2009. This condensed interim financial information is the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Kentucky Utilities Company as of December 31, 2009, and the related statements of income, retained earnings, and of cash flows for the year then ended (not presented herein), and in our report dated March 19, 2010, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet information as of December 31, 2009, is fairly stated in all material respects in relation to the balance sheet from which it has been derived.

PricewaterhouseCoopers LLP

August 11, 2010

Kentucky Utilities Company
Condensed Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Operating revenues				
Total operating revenues (Note 8)	$ 350	$ 305	$ 730	$ 668
Operating expenses				
Fuel for electric generation	119	100	245	215
Power purchased (Note 8)	40	43	94	107
Other operation and maintenance expenses	86	76	165	208
Depreciation and amortization	34	33	68	66
Total operating expenses	279	252	572	596
Operating income	71	53	158	72
Equity in loss (earnings) of unconsolidated venture	1	1	(2)	(1)
Other expense (income) – net (Note 3)	1	(3)	1	(6)
Interest expense (Note 6)	1	1	3	3
Interest expense to affiliated companies (Notes 6 and 8)	19	17	37	33
Income before income taxes	49	37	119	43
Income tax expense (Note 5)	18	11	44	10
Net income	$ 31	$ 26	$ 75	$ 33

The accompanying notes are an integral part of these condensed financial statements.

Condensed Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Balance at beginning of period	$ 1,372	$ 1,202	$ 1,328	$ 1,195
Net income	31	26	75	33
Balance at end of period	$ 1,403	$ 1,228	$ 1,403	$ 1,228

The accompanying notes are an integral part of these condensed financial statements.

Kentucky Utilities Company
Condensed Balance Sheets
(Unaudited)
(Millions of $)

Assets	June 30, 2010	December 31, 2009
Current assets:		
Cash and cash equivalents	$ 3	$ 2
Accounts receivable, net:		
Customer – less reserves of $2 million and $1 million as of June 30, 2010 and December 31, 2009, respectively	165	155
Other – less reserves of $2 million as of June 30, 2010 and December 31, 2009, respectively	17	18
Accounts receivable from affiliated companies	-	9
Materials and supplies:		
Fuel (predominantly coal)	113	98
Other materials and supplies	41	39
Income tax receivable	15	-
Deferred income taxes – net (Note 5)	3	3
Regulatory assets (Note 2)	13	32
Prepayments and other current assets	5	10
Total current assets	375	366
Other property and investments	14	12
Utility plant:		
At original cost	5,306	4,892
Less: reserve for depreciation	1,872	1,838
Total utility plant, net	3,434	3,054
Construction work in progress	971	1,257
Net utility plant and construction work in progress	4,405	4,311
Deferred debits and other assets:		
Regulatory assets (Note 2):		
Pension and postretirement benefits	105	105
Other	119	117
Cash surrender value of key man life insurance	38	38
Other assets	7	7
Total deferred debits and other assets	269	267
Total assets	$ 5,063	$ 4,956

The accompanying notes are an integral part of these condensed financial statements.

Kentucky Utilities Company
Condensed Balance Sheets (cont.)
(Unaudited)
(Millions of $)

Liabilities and Equity	June 30, 2010	December 31, 2009
Current liabilities:		
Current portion of long-term bonds (Notes 3 and 6)	$ 228	$ 228
Current portion of long-term debt to affiliated company (Note 3)	33	33
Notes payable to affiliated companies (Notes 6 and 8)	84	45
Accounts payable	95	107
Accounts payable to affiliated companies (Note 8)	66	88
Accrued income taxes	-	5
Customer deposits	22	22
Regulatory liabilities (Note 2)	5	3
Other current liabilities	31	37
Total current liabilities	564	568
Long-term debt:		
Long-term bonds (Notes 3 and 6)	123	123
Long-term debt to affiliated company (Notes 3, 6 and 8)	1,298	1,298
Total long-term debt	1,421	1,421
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 5)	366	336
Accumulated provision for pensions and related benefits (Note 4)	156	160
Investment tax credit (Note 5)	104	104
Asset retirement obligations	35	34
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	340	331
Deferred income taxes - net	10	9
Postretirement benefits	9	9
MISO exit	3	4
Other	8	7
Customer advances for construction	3	3
Other liabilities	17	18
Total deferred credits and other liabilities	1,051	1,015
Common equity:		
Common stock, without par value -		
Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in capital (Note 8)	316	316
Retained earnings	1,392	1,318
Undistributed subsidiary earnings	11	10
Total retained earnings	1,403	1,328
Total common equity	2,027	1,952
Total liabilities and equity	$ 5,063	$ 4,956

The accompanying notes are an integral part of these condensed financial statements.

Kentucky Utilities Company
Condensed Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Six Months Ended June 30, 2010	2009
Cash flows from operating activities:		
Net income	$ 75	$ 33
Items not requiring cash currently:		
Depreciation and amortization	68	66
Deferred income taxes – net	29	6
Investment tax credit – net	-	11
Provision for pension and post retirement plans	7	9
Undistributed earnings of unconsolidated venture	(2)	9
Other	-	(2)
Changes in current assets and liabilities:		
Accounts receivable	-	18
Materials and supplies	(17)	(28)
Income tax receivable	(15)	-
Environmental cost recovery	29	(11)
Fuel adjustment clause	(8)	3
Accounts payable	11	(5)
Accrued income taxes	(5)	-
Other current assets and liabilities	-	5
Pension and postretirement funding (Note 4)	(16)	(16)
Other	(1)	(4)
Net cash provided by operating activities	155	94
Cash flows from investing activities:		
Construction expenditures	(145)	(271)
Assets purchased from affiliate	(48)	-
Change in restricted cash	-	9
Net cash used for investing activities	(193)	(262)
Cash flows from financing activities:		
Short-term borrowings from affiliated company – net (Note 6)	39	44
Long-term borrowings from affiliated company (Note 6)	-	50
Capital contribution (Note 9)	-	75
Net cash provided by financing activities	39	169
Change in cash and cash equivalents	1	1
Cash and cash equivalents at beginning of period	2	2
Cash and cash equivalents at end of period	$ 3	$ 3

The accompanying notes are an integral part of these condensed financial statements.

Kentucky Utilities Company
Notes to Condensed Financial Statements
(Unaudited)

Note 1 - General

KU's common stock is wholly-owned by E.ON U.S., an indirect wholly-owned subsidiary of E.ON. In the opinion of management, the unaudited interim condensed financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for fair statements of income and retained earnings, balance sheets, and statements of 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 condensed 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, 2009, including the audited financial statements and notes therein. The December 31, 2009 Condensed Balance Sheet included herein is derived from the December 31, 2009 audited balance sheet. Amounts reported in the Condensed Statements of Income are not necessarily indicative of amounts expected for the respective annual periods due to the effects of seasonal temperature variations on energy consumption, regulatory rulings, the timing of maintenance on electric generating units, changes in mark-to-market valuations, changing commodity prices and other factors.

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2010 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and net cash flows. However, cash flows provided by operating activities decreased by $2 million and cash flows used for investing activities decreased by $2 million.

<u>PPL Acquisition</u>

On April 28, 2010, E.ON U.S. announced that a Purchase and Sale Agreement (the "Agreement") had been entered into among E.ON US Investments, PPL and E.ON.

The Agreement provides for the sale of E.ON U.S. to PPL. Pursuant to the Agreement, at closing, PPL will acquire all of the outstanding limited liability company interests of E.ON U.S. for cash consideration of $2.1 billion. In addition, pursuant to the Agreement, PPL agreed to assume $925 million of pollution control bonds and to repay indebtedness owed by E.ON U.S. and its subsidiaries to E.ON US Investments and its affiliates. Such affiliate indebtedness is currently estimated to be $4.6 billion. The aggregate consideration payable by PPL on closing, $7.6 billion (including the assumed indebtedness), is subject to adjustment for specified incremental investment in E.ON U.S. that will potentially be made by E.ON US Investments and its affiliates prior to closing.

The transaction is subject to customary closing conditions, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Act, receipt of required regulatory approvals (including state regulators in Kentucky, Virginia and Tennessee, and the FERC) and the absence of injunctions or restraints imposed by governmental entities. Subject to receipt of required approvals, the transaction is expected to close by the end of 2010. Change of control and financing-related applications were filed on May 28, 2010, with the Kentucky

Commission and on June 15, 2010, with the Virginia Commission and the Tennessee Regulatory Authority. An application with the FERC was filed on June 28, 2010. During the second quarter of 2010, a number of parties were granted intervenor status in the Kentucky Commission proceedings and data request filings and responses occurred. Hearings in the Kentucky Commission proceedings are scheduled for September 8, 2010. Early termination of the final Hart-Scott-Rodino waiting period was received on August 2, 2010.

Based upon credit and financial market conditions, the anticipated PPL acquisition and other factors, the Company anticipates completing certain re-financing transactions and, where applicable, has applied for regulatory approvals for such transactions. KU anticipates issuing up to $1.6 billion in public first mortgage bonds, the proceeds of which will substantially be used to refund existing long-term intercompany debt. As required by existing covenants, in connection with the issuance of any such secured debt, KU would also collateralize certain outstanding pollution control bond debt series which are presently unsecured. Upon such collateralization, approximately $351 million in existing pollution control debt would become secured debt, supported by a first mortgage lien. Subject to regulatory approvals and other conditions, KU may complete these transactions, in whole or in part, during late 2010 and early 2011.

Recent Accounting Pronouncements

Fair Value Measurements

In January 2010, the FASB issued guidance related to fair value measurement disclosures requiring separate disclosure of amounts of significant transfers in and out of level 1 and level 2 fair value measurements and separate information about purchases, sales, issuances, and settlements within level 3 measurements. This guidance is effective for the interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about the roll-forward of activity in level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. This guidance has no impact on the Company's results of operations, financial position, liquidity or disclosures.

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 KU's Annual Report for the year ended December 31, 2009.

2010 Kentucky Rate Case

In January 2010, KU filed an application with the Kentucky Commission requesting an increase in electric base rates of approximately 12%, or $135 million annually, including an 11.5% return on equity. KU requested the increase, based on the twelve month test year ended October 31, 2009, to become effective on and after March 1, 2010. The requested rates were suspended until August 1, 2010. A number of intervenors entered the rate case, including the Kentucky Attorney General's office, certain representatives of industrial and low-income groups and other third parties, and submitted filings challenging the Company's requested rate increases, in whole or in part. A hearing was held on June 8, 2010. KU and all of the intervenors except the AG agreed to a stipulation providing for an increase in electric base rates of $98 million annually and filed a request with the Kentucky Commission to approve such settlement. An Order in the proceeding was issued in July 2010, approving all the provisions in the stipulation, with rates effective on and after August 1, 2010.

Virginia Rate Case

In June 2009, KU filed an application with the Virginia Commission requesting an increase in electric base rates for its Virginia jurisdictional customers in an amount of $12 million annually or approximately 21%. The proposed increase reflected a proposed rate of return on rate base of 8.586% based upon a return on equity of 12%. During December 2009, KU and the Virginia Commission Staff agreed to a Stipulation and Recommendation authorizing base rate revenue increases of $11 million annually and a return on rate base of 7.846% based on a 10.5% return on common equity. A public hearing was held during January 2010. As permitted, pursuant to a Virginia Commission Order, KU elected to implement the proposed rates effective November 1, 2009, on an interim basis. In March 2010, the Virginia Commission issued an Order approving the stipulation, with the increased rates to be put into effect as of April 1, 2010. As part of the stipulation, KU refunded certain amounts collected since November 2009, consisting of interim rates in excess of the ultimate approved rates. These refunds, including interest, aggregated approximately $1 million and were made during May and June 2010. During the third quarter of 2010, a report is expected to be filed detailing the costs of the refunds, the accounts charged and details validating that all refunds have been made.

FERC Wholesale Rate Case

In September 2008, KU filed an application with the FERC for increases in electric base rates applicable to wholesale power sales contracts or interchange agreements involving, collectively, twelve Kentucky municipalities. The application requested a shift from current, all-in stated unit charge rates to an unbundled formula rate, including an annual adjustment mechanism. In May 2009, the FERC issued an Order approving a settlement among the parties in the case, incorporating increases of approximately 3% from prior rates and a return on equity of 11%. In May 2010, KU submitted to the FERC the proposed current annual adjustment to the formula rate. This updated rate became effective on July 1, 2010, subject to certain review procedures by the wholesale requirements customers and the FERC, including potential refunds in the case of disallowed costs or charges.

By mutual agreement, the parties' settlement of the 2008 application left outstanding the issue of whether KU must allocate to the municipal customers a portion of renewable resources it may be required to procure on behalf of its retail ratepayers. In August 2009, the FERC accepted the issue for briefing and the parties completed briefing submissions during 2009. An Order was issued by the FERC in July 2010, indicating that KU is not required to allocate a portion of any renewable resources to the twelve municipalities, thus resolving the remaining issue.

Regulatory Assets and Liabilities

The following regulatory assets and liabilities were included in KU's Balance Sheets:

(in millions)	June 30, 2010	December 31, 2009
Current regulatory assets:		
ECR	$ -	$ 28
FAC	9	1
MISO exit	2	2
Other	2	1
Total current regulatory assets	$ 13	$ 32
Non-current regulatory assets:		
Storm restoration	$ 59	$ 59
ARO	31	30
Unamortized loss on bonds	12	12
MISO exit	8	9
Other	9	7
Subtotal non-current regulatory assets	119	117
Pension benefits	105	105
Total non-current regulatory assets	$ 224	$ 222
Current regulatory liabilities:		
DSM	$ 3	$ 3
ECR	1	-
MISO exit	1	-
Total current regulatory liabilities	$ 5	$ 3
Non-current regulatory liabilities:		
Accumulated cost of removal of utility plant	$ 340	$ 331
Deferred income taxes – net	10	9
Postretirement benefits	9	9
MISO exit	3	4
Other	8	7
Total non-current regulatory liabilities	$ 370	$ 360

KU does not currently earn a rate of return on the ECR and FAC regulatory assets and the Virginia levelized fuel factor included in other non-current regulatory liabilities, which are separate recovery mechanisms with recovery within twelve months. No return is earned on the pension benefits regulatory asset that represents the changes in funded status of the plans. KU will recover this asset through pension expense included in the calculation of base rates with the Kentucky Commission and will seek recovery of this asset in future proceedings with the Virginia Commission. 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. ARO liabilities are included in other noncurrent regulatory liabilities. A return is earned on the unamortized loss on bonds, including the portion in other current regulatory assets, and these costs are recovered through amortization over the life of the debt. The Company received approval in its current base rate case to recover the storm restoration regulatory asset over a ten year period. The Company also received approval for adjustments to the amortization of CMRG and KCCS contributions, included in other non-current regulatory assets. The Company recovers through the calculation of base rates, the amortization of the net MISO exit regulatory asset in Kentucky incurred through April 30, 2008. The Company received approval to recover the Virginia portion of this asset, as incurred through December 31, 2008, over a five year period and, due to the formula nature of its FERC rate structure, the FERC jurisdictional portion of the regulatory asset will be included in the annual updates to the rate formula. Recovery of the FERC jurisdictional pension expense, included in other non-current regulatory assets, and the change in accounting method for spare parts, included in other non-current regulatory liabilities, will be requested in the next FERC rate case. The Company recovers through the calculation of base rates, the amortization of the remaining regulatory assets, other current and non-current regulatory assets comprised of the East Kentucky Power Cooperative FERC transmission settlement agreement and Kentucky rate case expenses. The regulatory liabilities for the MISO exit include administrative charges collected via base rates from May 2008 through February 5, 2009, and refunds of the exit fee. The MISO regulatory liability will be netted against the remaining costs of withdrawing from the MISO, except for a small portion of the refund attributable to Kentucky customers which occurred in 2010 and which will be addressed in a later rate case, per a Kentucky Commission Order, in the current Kentucky base rate case. Refunds from the MISO for a portion of the cost of exiting will also be netted against the remaining balances of these costs in the current Kentucky base rate case, as well as in future Kentucky base rate cases, in future Virginia base rate cases and also included in the calculation of future FERC formula-based rates.

ECR. In July 2010, the Kentucky Commission initiated a six-month review of KU's environmental surcharge for the billing period ending April 2010. An order is expected in the fourth quarter of 2010.

In January 2010, the Kentucky Commission initiated a six-month review of KU's environmental surcharge for the billing period ending October 2009. In May 2010, an Order was issued approving the amounts billed through the ECR during the six-month period and the rate of return on capital and allowing recovery of the under-recovery position in subsequent monthly filings.

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. During 2009, KU reached a unanimous settlement with all parties to the case, and the Kentucky Commission issued an Order approving KU's application. Recovery on customer bills through the monthly ECR surcharge for these projects began with the February 2010 billing cycle. At December 31, 2009, the Company had a regulatory asset of $28 million, which changed to a regulatory liability in the first quarter of 2010, as a result of these roll-in adjustments to base rates. At June 30, 2010, the regulatory liability balance is $1 million.

FAC. In February 2010, KU filed an application with the Virginia Commission seeking approval of a decrease in its fuel cost factor beginning with service rendered in April 2010. In February 2010, the Virginia Commission recommended a change to the fuel factor KU had in its application, to which KU agreed. Following a public hearing in March 2010, and an Order in

April 2010, the recommended charge became effective as of April 1, 2010, resulting in a decrease of 23% from the fuel factor in effect for April 2009 through March 2010.

In January 2010, the Kentucky Commission initiated a six-month review of KU's FAC mechanism for the expense period ended August 2009. In May 2010, an Order was issued approving the charges and credits billed through the FAC during the review period.

Storm Restoration. In January 2009, a significant ice storm passed through KU's service territory causing approximately 199,000 customer outages and was followed closely by a severe wind storm in February 2009 that caused approximately 44,000 customer outages. KU incurred $57 million in incremental operation and maintenance expenses and $33 million in 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 $62 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 $62 million based on its actual costs for storm damages and service restoration due to the January and February 2009, storms. In September 2009, the Company established a regulatory asset of $57 million for actual costs incurred. The Company received approval in its current base rate case to recover this asset over a ten year period beginning August 1, 2010.

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, KU filed an application with the Kentucky Commission requesting approval to establish a regulatory asset and defer for future recovery approximately $3 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 $3 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 $2 million for actual costs incurred. The Company received approval in its current base rate case to recover this asset over a ten year period beginning August 1, 2010.

<u>Other Regulatory Matters</u>

Wind Power Agreements. In September 2009, the Companies filed an application and supporting testimony with the Kentucky Commission for approval of wind power purchase contracts and cost recovery mechanisms, under which KU and LG&E would jointly purchase respective assigned portions of the output of two Illinois wind farms totaling an aggregate 109.5 Mw. In October 2009, the Kentucky Commission issued an Order denying the Companies' request to establish a surcharge for recovery of the costs of purchasing wind power. In March 2010, KU and LG&E delivered notices of termination under provisions of the wind power contracts. The Companies also filed a motion with the Kentucky Commission noting the termination of the contracts and seeking withdrawal of their application in the related regulatory proceeding. In April 2010, the Kentucky Commission issued an Order allowing the Companies to withdraw their pending application.

TC2 Depreciation. In August 2009, KU and LG&E jointly filed an application with the Kentucky Commission to approve new common depreciation rates for applicable jointly-owned TC2-related generating, pollution control and other plant equipment and assets. During

December 2009, the Kentucky Commission extended the data discovery process through January 2010, and authorized KU and LG&E on an interim basis to begin using the depreciation rates for TC2 as proposed in the application. In March 2010, the Kentucky Commission issued a final Order approving the use of the proposed depreciation rates on a permanent basis.

TC2 Transmission Matters. KU's and LG&E's CCN for a transmission line associated with the TC2 construction has been challenged by certain property owners in Hardin County, Kentucky. In August 2006, KU and LG&E obtained a successful dismissal of the challenge at the Franklin County Circuit Court, which was reversed by the Kentucky Court of Appeals in December 2007. In April 2009, the Kentucky Supreme Court granted KU's and LG&E's motion for discretionary review of the Court of Appeal's decision. KU's and LG&E's proceeding before the Kentucky Supreme Court, which seeks reinstatement of the Circuit Court dismissal of the CCN challenge, has been fully briefed and oral argument occurred during March 2010. A ruling on the matter could occur during the second half of 2010.

During 2008, KU obtained various successful rulings at the Hardin County Circuit Court confirming its condemnation rights. In August 2008, several landowners appealed such rulings to the Kentucky Court of Appeals. In May 2010, the Kentucky Court of Appeals issued an Order affirming the Hardin Circuit Court's finding that KU had the right to condemn easements on the properties. In May 2010, the landowners filed a petition for reconsideration with the Court of Appeals. In July 2010, the Court of Appeals denied that petition. The landowners may seek discretionary review of that denial by the Kentucky Supreme Court on or before August 21, 2010.

As a result of the aforementioned proceedings delaying access to certain properties in Hardin County, KU obtained easements to allow construction of temporary transmission facilities for approximately ten years, which bypass the disputed properties while the litigated issues are resolved. In December 2009, the Kentucky Commission granted CCNs for the relevant temporary segments. In January 2010, the Franklin County Circuit Court issued Orders denying the property owners' request for a stay of construction and upholding the Kentucky Commission's denial of their intervenor status.

In a separate proceeding, certain Hardin County landowners have filed an action in federal district court in Louisville, Kentucky against the U.S. Army challenging the same transmission line claiming that certain Fort Knox-related sections of the line failed to comply with certain National Historic Preservation Act procedural requirements. In October 2009, the federal court granted the defendants' motion for summary judgment and dismissed the plaintiffs' claims. During November 2009, the petitioners filed submissions for review of the decision with the 6^{th} Circuit Court of Appeals. That appeal has since been voluntarily withdrawn by the plaintiffs.

Consistent with the regulatory authorizations and relevant legal proceedings, the Company has completed construction activities on temporary or permanent transmission line segments, respectively. During the second quarter of 2010, KU and LG&E placed into operation an appropriate combination of permanent and temporary sections of the transmission line. While KU and LG&E are not currently able to predict the ultimate outcome and possible financial effects of the remaining legal proceedings, KU and LG&E do not believe the matter involves relevant or continuing risks to operations.

KU and LG&E are not currently able to predict the ultimate outcome and possible effects, if any, on the construction schedule relating to the permanent transmission line approval, land acquisition and permitting proceedings.

Mandatory Reliability Standards. As a result of the EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007, and authority was delegated to various Regional Reliability Organizations ("RROs") by the North American Electric Reliability Corporation ("NERC"), which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day, as well as non-monetary penalties, depending upon the circumstances of the violation. KU and LG&E are members of the SERC, which acts as KU's and LG&E's RRO. During December 2009, the SERC and KU and LG&E agreed to settlements involving penalties totaling less than $1 million for each utility related to their self-reports during June and October 2008, concerning possible violations of standards. During December 2009 and April and July 2010, KU and LG&E submitted four self-reports relating to various standards, which self-reports remain in the early stages of RRO review, and therefore, the Companies are unable to estimate the outcome of these matters. Mandatory reliability standard settlements commonly also include non-penalty elements, including compliance steps and mitigation plans. Settlements with the SERC proceed to NERC and FERC review before becoming final. While KU and LG&E believe they are in compliance with the mandatory reliability standards, other events of potential non-compliance may be identified from time-to-time. The Companies cannot predict such potential violations or the outcomes of the self-reports described above.

Note 3 - Financial Instruments

The cost and estimated fair values of KU's non-trading financial instruments as of June 30, 2010 and December 31, 2009 follow:

	June 30, 2010		December 31, 2009	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term bonds (including current portion of $228 million)	$ 351	$ 351	$ 351	$ 351
Long-term debt to affiliated company (including current portion of $33 million)	1,331	1,482	1,331	1,401

The long-term debt valuations reflect prices quoted by dealers. The fair value of the long-term debt to affiliated company 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 KU's credit ratings and default risk. The fair values of cash and cash equivalents, accounts receivable, cash surrender value of key man life insurance, accounts payable and notes payable are substantially the same as their carrying values.

KU 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. The Company's policies allow the interest rate risk to be managed through the use of fixed rate debt, floating rate debt and interest rate swaps. At June 30, 2010, a 100 basis point change in the benchmark rate on KU's variable rate debt, not effectively hedged by an interest rate swap, would impact pre-tax interest expense by $4 million annually. Although the Company's policies allow for the use of interest rate swaps, as of June 30, 2010 and December 31, 2009, KU had no interest rate swaps outstanding.

KU 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.

Energy Trading and Risk Management Activities. KU conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to 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 2010 or 2009. 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, KU 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, KU 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, 2010, 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 June 30, 2010 and December 31, 2009, counterparty credit reserves related to energy trading and risk management contracts were less than $1 million.

The net volume of electricity based financial derivatives outstanding at June 30, 2010 and December 31, 2009, was zero Mwhs and 43,400 Mwhs, respectively. No cash collateral related to the energy trading and risk management contracts was required at June 30, 2010. Cash collateral related to the energy trading and risk management contracts was less than $1 million at December 31, 2009. Cash collateral related to the energy trading and risk management contracts is categorized as other accounts receivable and is a level 1 measurement based on the criteria previously defined.

KU's financial assets and liabilities as of June 30, 2010 and December 31, 2009, arising from energy trading and risk management contracts accounted for at fair value total less than $1 million and use level 2 measurements. There are no level 1 or level 3 measurements for the periods ending June 30, 2010 and December 31, 2009.

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 June 30, 2010, 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. At June 30, 2010, a one notch downgrade of the Company’s credit rating would have no effect on the energy trading and risk management contracts or collateral required.

At June 30, 2010 and December 31, 2009, the fair value of short-term assets and liabilities for energy trading and risk management contracts not designated as hedging instruments was less than $1 million and was recorded in other current assets and other current liabilities, respectively.

KU manages the price risk of its estimated future excess economic generation capacity using market-traded 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 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
Energy trading and risk management contracts (unrealized)	Electric revenues	$ (2)

Net unrealized losses were less than $1 million in the three-month periods ended June 30, 2010 and 2009, respectively, and net unrealized gains were less than $1 million in the six-month period ended June 30, 2010. Net realized gains were less than $1 million in the three and six month periods ended June 30, 2010 and 2009, respectively.

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 KU 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 KU are approximately 53% and 51% of E.ON U.S. Services costs for June 30, 2010 and 2009, respectively.

(in millions)	Pension Benefits Three Months Ended June 30, 2010			2009		
	KU	E.ON U.S. Services Allocation to KU	Total KU	KU	E.ON U.S. Services Allocation to KU	Total KU
Service cost	$ 1	$ 2	$ 3	$ 2	$ 1	$ 3
Interest cost	5	2	7	4	2	6
Expected return on plan assets	(4)	(2)	(6)	(3)	(1)	(4)
Amortization of actuarial loss	2	-	2	2	1	3
Benefit cost	$ 4	$ 2	$ 6	$ 5	$ 3	$ 8

(in millions)	Other Postretirement Benefits Three Months Ended June 30, 2010			2009		
	KU	E.ON U.S. Services Allocation to KU	Total KU	KU	E.ON U.S. Services Allocation to KU (a)	Total KU
Service cost	$ -	$ 1	$ 1	$ -	$ -	$ -
Interest cost	1	-	1	1	-	1
Expected return on plan assets	(1)	-	(1)	-	-	-
Amortization of transitional	1	-	1	-	-	-
Benefit cost	$ 1	$ 1	$ 2	$ 1	$ -	$ 1

(a) amounts are less than $1 million

(in millions)	Pension Benefits Six Months Ended June 30, 2010			2009		
	KU	E.ON U.S. Services Allocation to KU	Total KU	KU	E.ON U.S. Services Allocation to KU	Total KU
Service cost	$ 3	$ 3	$ 6	$ 3	$ 3	$ 6
Interest cost	10	4	14	9	4	13
Expected return on plan assets	(8)	(3)	(11)	(7)	(3)	(10)
Amortization of prior service costs	-	-	-	-	1	1
Amortization of actuarial loss	3	1	4	5	1	6
Benefit cost	$ 8	$ 5	$ 13	$ 10	$ 6	$ 16

(in millions)	Other Postretirement Benefits Six Months Ended June 30, 2010			2009		
	KU	E.ON U.S. Services Allocation to KU	Total KU	KU	E.ON U.S. Services Allocation to KU	Total KU
Service cost	$ 1	$ 1	$ 2	$ 1	$ 1	$ 2
Interest cost	2	-	2	2	-	2
Expected return on plan assets	(1)	-	(1)	(1)	-	(1)
Amortization of transitional	1	-	1	1	-	1
Benefit cost	$ 3	$ 1	$ 4	$ 3	$ 1	$ 4

In January 2010, KU and E.ON U.S. Services made a pension plan contribution of $13 million and $9 million, respectively. KU's intent is to fund the pension plan in a manner consistent with the requirements of the Pension Protection Act of 2006.

In 2010, KU has made contributions to other postretirement benefit plans totaling $3 million. The Company also anticipates further funding to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Health Care Reform

In March 2010, Health Care Reform (the Patient Protection and Affordable Care Act of 2010) was signed into law. Many provisions of Health Care Reform do not take effect for an extended period of time, and many aspects of the law which are currently unclear or undefined will likely be clarified in future regulations.

During each of the three and six month periods ended June 30, 2010, KU recorded an income tax expense of less than $1 million, to recognize the impact of the elimination effective in 2013 of the tax deduction related to the Medicare Retiree Drug Subsidy.

Specific provisions within Health Care Reform that may impact KU include:

- Beginning in 2011, a requirement to extend dependent coverage up to age 26.
- Beginning in 2018, a potential excise tax on high-cost plans providing health coverage that exceeds certain thresholds.

KU continues to evaluate all implications of Health Care Reform on its benefit programs but at this time cannot predict the significance of those implications.

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 KU, 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 2006 and later years are open under the federal statute of limitations, Revenue Agent Reports for 2006-2008 have been received from the IRS, effectively closing these years to additional audit adjustments. Tax years 2007 and 2008 were examined under an IRS pilot program named "Compliance Assurance Process" ("CAP"). This program accelerates the IRS' review to begin during the year applicable to the return and ends 90 days after the return is filed. For 2008, the IRS allowed additional deductions in connection with the Company's application for a change in repair deductions and disallowed some of the bonus depreciation claimed on the original return. The net temporary tax impact for the Company was $12 million, and has been recorded in the second quarter of 2010. Tax years 2009 and 2010 are also being examined under CAP. No material items have been raised by the IRS at this time.

Additions and reductions of uncertain tax positions during 2010 and 2009 were less than $1 million. Possible amounts of uncertain tax positions for KU that may decrease within the next 12 months total less than $1 million and are based on the expiration of the audit periods as defined in the statutes. If recognized, the less than $1 million of unrecognized tax benefits would reduce the effective income tax rate.

The amount KU recognized as interest expense and interest accrued related to unrecognized tax benefits was less than $1 million as of June 30, 2010 and December 31, 2009. 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. KU records the interest as interest expense and penalties as operating expenses in the income statement and accrued expenses in the balance sheet, on a pre-tax basis. No penalties were accrued by the Company through June 30, 2010.

In June 2006, KU and LG&E filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that KU was selected to receive $101 million in tax credits. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, KU received an Order from the Kentucky Commission approving the accounting of the investment tax credits, which includes a full depreciation basis adjustment for the amount of the credits. Based on eligible construction expenditures incurred, KU recorded investment tax credits of $5 and $11 million during the three and six months ended June 30, 2009, decreasing current federal income taxes. As of December 31, 2009 KU had recorded its maximum credit of $101 million. The income tax expense impact from amortizing these credits over the life of the related property will begin when the facility is placed in service. As of June 30, 2010, TC2 has not been 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. During 2008 and 2009, the plaintiffs submitted amended complaints alleging additional claims for relief and seeking a preliminary injunction to implement certain elements of the requested relief. In July 2010, the court denied the plaintiffs' motion for preliminary injunction. A motion by the Federal government to dismiss the amended complaint is currently pending. The Company is not a party to this proceeding and is not able to predict the ultimate outcome of this matter.

A reconciliation of differences between KU's income tax expense at the statutory U.S. federal income tax rate and KU's actual income tax expense for the three and six month periods ended June 30 follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2010	2009	2010	2009
Statutory federal income tax expense	$ 17	$ 13	$ 41	$ 15
State income taxes, net of federal benefit	2	1	4	1
Qualified production activities deduction	(1)	-	(1)	(1)
Dividends received deduction related to EEI investment	-	(1)	-	(3)
Excess deferred tax on depreciation	-	(1)	(1)	(1)
Other differences	-	(1)	1	(1)
Income tax expense	$ 18	$ 11	$ 44	$ 10
Effective income tax rate	36.7%	29.7%	37.0%	23.3%

The amounts shown in the table above are rounded to the nearest $1 million; however, the effective income tax rate is based on actual underlying amounts.

State income taxes, net of federal benefit, were lower in the three and six months ended June 30, 2009, due to a coal credit recorded in 2009. The dividends received deduction is lower in the three and six months ended June 30, 2010, primarily due to the lack of EEI dividends in 2010.

Note 6 - Short-Term and Long-Term Debt

KU's long-term debt includes $228 million of pollution control bonds that are classified as current portion of long-term bonds because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Carroll County 2002 Series A and B, 2004 Series A, 2006 Series B and 2008 Series A; Muhlenberg County 2002 Series A; and Mercer County 2000 Series A and 2002 Series A. Maturity dates for these bonds range from 2023 to 2034. The average annualized interest rate for these bonds during the three and six months ended June 30, 2010, was 0.37% and 0.36%, respectively. The average annualized interest rate for these bonds during the three and six months ended June 30, 2009, was 0.62% and 0.72%, respectively.

Pollution control bonds are obligations of KU issued in connection with tax-exempt pollution control revenue bonds issued by counties in Kentucky. A loan agreement obligates the Company to make debt service payments to the counties that equate to the debt service due from the counties on the related pollution control revenue bonds. The loan agreement is an unsecured obligation of the Company. Debt issuance expense is capitalized in either regulatory assets or current or long-term other assets and amortized over the lives of the related bond issues, consistent with regulatory practices.

Several of the KU 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, 2010, KU had an aggregate $351 million of outstanding pollution control indebtedness, of which $96 million is in the form of insured auction rate securities wherein interest rates are reset 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, 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 June 30, 2010 and 2009, the average rate on the auction rate bonds was 0.61% and 0.54%, respectively. During the six months ended June 30, 2010 and 2009, the average rate on the auction rate bonds was 0.44% and 0.59%, respectively. The instruments governing these auction rate bonds permit KU to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In June 2009, S&P downgraded the credit rating of Ambac, an insurer of the Company's bonds, from "A" to "BBB". As a result, S&P downgraded the rating on the Carroll County 2002 Series C bond from "A" to "BBB+" in June 2009. The S&P rating of this bond is now based on the rating of the Company rather than the rating of Ambac since the Company's rating is higher.

The Company participates in an intercompany money pool agreement wherein E.ON U.S. and/or LG&E make funds available to KU at market-based rates (based on highly rated commercial paper issues) 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, 2010	$ 400	$ 84	$ 316	0.34%
December 31, 2009	$ 400	$ 45	$ 355	0.20%

E.ON U.S. maintains revolving credit facilities totaling $313 million at June 30, 2010 and December 31, 2009, to ensure funding availability for the money pool. At June 30, 2010, 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, 2010	$ 313	$ 244	$ 69	1.51%
December 31, 2009	$ 313	$ 276	$ 37	1.25%

As of June 30, 2010, the Company maintained a bilateral line of credit with an unaffiliated financial institution totaling $35 million which matures in June 2012. At June 30, 2010, there was no balance outstanding under this facility. The Company also maintains letter of credit facilities that support $195 million of the $228 million of bonds that can be put back to the Company. Should the holders elect to put the bonds back and they cannot be remarketed, the letter of credit would fund the investor's payment.

There were no redemptions or issuances of long-term debt year-to-date through June 30, 2010. KU was in compliance with all debt covenants at June 30, 2010 and December 31, 2009.

See Note 2, Rates and Regulatory Matters, for certain debt refinancing and associated transactions which are anticipated by KU in connection with the PPL acquisition.

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, 2009 (including, but not limited to Notes 2, 9 and 12 to the financial statements of KU contained therein). See the Company's Annual Report regarding such commitments or contingencies.

Letters of Credit. KU has provided letters of credit as of June 30, 2010 and December 31, 2009, for on-balance sheet obligations totaling $198 million to support bonds of $195 million and a letter of credit for off-balance sheet obligations totaling less than $1 million to support certain obligations related to workers' compensation.

Owensboro Contract Litigation and Contract Termination. In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. In May 2009, KU and OMU executed a settlement agreement resolving the matter on a basis consistent with prior court rulings and the Company has received the agreed settlement amounts. Pursuant to the settlement's operation, the OMU agreement terminated in May 2010. In connection with such termination, during the second quarter of 2010, KU has recorded relevant reserve amounts reflecting its estimates of remaining adjustments concerning prior accruals.

Construction Program. KU had approximately $55 million of commitments in connection with its construction program at June 30, 2010.

In June 2006, KU and LG&E entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. During 2009 and 2010, KU and LG&E have received several contractual notices from the TC2 construction contractor asserting historical force majeure and excusable event claims for a number of adjustments to the contract price, construction schedule, commercial operation date, liquidated damages or other relevant provisions. Further, during commissioning and testing activity conducted in the second quarter of 2010, the TC2 unit experienced burner malfunctions which have delayed the completion of commissioning and consequently the commercial operations date beyond the previously anticipated date of mid-June 2010. The Companies and the contractor are actively investigating the potential causes of and solutions to this development and currently estimate that commercial operation may be delayed until October 2010. The parties are continuing to discuss the existing force majeure, excusable delay and the recent burner malfunction issues and are attempting to resolve certain of them via settlement negotiations. The Company cannot currently estimate the ultimate outcome of these matters, including the extent, if any, that such outcome may result in materially increased costs for the construction of TC2, further changes in the TC2 construction completion or commercial operation dates or potential effects on levels of power purchases or wholesale sales due to such changed dates.

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. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order upholding the permit. The environmental groups petitioned the EPA to object to the state permit and subsequent permit revisions. In determinations made in September 2008 and June 2009, the EPA rejected most of the environmental groups' claims but identified three permit deficiencies which the KDAQ addressed by revising the permit. In August 2009, the EPA issued an Order denying the remaining claims with the exception of two additional deficiencies which the KDAQ was directed to address. The EPA determined that the proposed permit subsequently issued by the KDAQ satisfied the conditions of the EPA Order although the agency recommended certain enhancements to the administrative record. In January 2010, the KDAQ issued a final permit revision incorporating the proposed changes to address the EPA objections. In March 2010, the environmental groups submitted a petition to the EPA to object to the permit revision, which is now pending before the EPA. The Company believes that the final permit as revised should not have a material adverse effect on its financial condition or results of operations. However, until the EPA issues a final ruling on the pending petition and all applicable appeals have been exhausted, the Company cannot predict the final outcome of this matter.

Thermostat Replacement. During January 2010, KU and LG&E announced a voluntary plan to replace certain thermostats, which had been provided to customers as part of the Companies' demand reduction programs, due to concerns that the thermostats may present a safety hazard. Under the plan, the Companies have replaced approximately 85% of the estimated 14,000 thermostats that need to be replaced. Total estimated costs associated with the replacement program are $2 million. However, the Companies cannot fully predict the ultimate outcome of the replacement program or other effects or developments which may be associated with the thermostat replacement matter at this time.

Environmental Matters. The Company's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

Clean Air Act Requirements. The Clean Air Act establishes a comprehensive set of programs aimed at protecting and improving air quality in the United States by, among other things, controlling stationary sources of air emissions such as power plants. While the general regulatory framework for these programs is established at the federal level, most of the programs are implemented and administered by the states under the oversight of the EPA. The key Clean Air Act programs relevant to KU's business operations are described below.

Ambient Air Quality. The Clean Air Act requires the EPA to periodically review the available scientific data for six criteria pollutants and establish concentration levels in the ambient air sufficient to protect the public health and welfare with an extra margin for safety. These concentration levels are known as NAAQS. Each state must identify "nonattainment areas" within its boundaries that fail to comply with the NAAQS and develop a SIP to bring such nonattainment areas into compliance. If a state fails to develop an adequate plan, the EPA must develop and implement a plan. As the EPA increases the stringency of the NAAQS through its periodic reviews, the attainment status of various areas may change, thereby triggering additional emission reduction obligations under revised SIPs aimed to achieve attainment.

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the Midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which 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.

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. 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.

In July 2010, the EPA issued the proposed CATR, which serves to replace the CAIR. The CATR provides for a two-phase SO_2 reduction program with Phase I reductions due by 2012, and Phase II reductions due by 2014. The CATR provides for NOx reductions in 2012, but the EPA advised that it is studying whether additional NOx reductions should be required for 2014. The CATR is more stringent than the CAIR as it accelerates certain compliance dates and provides for only intrastate and limited interstate trading of emission allowances. In addition to its preferred approach, the EPA is seeking comment on an alternative approach which would provide for individual emission limits at each power plant. The EPA has announced that it will propose additional “transport” rules to address compliance with revised NAAQS standards for ozone and particulate matter which will be issued by the EPA in the future, as discussed below. At present, KU is not able to predict the outcomes of the legal and regulatory proceedings related to the CATR; however, such outcomes, while not yet determinable, could result in significant costs to the Company.

In January 2010, the EPA proposed a revised NAAQS for ozone which would increase the stringency of the standard. In addition, the EPA published final revised NAAQS standards for nitrogen dioxide (“NO_2”) and SO_2 in February 2010 and June 2010, respectively, which are more stringent than previous standards. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the revised NAAQS standards, KU’s power plants are potentially subject to requirements for additional reductions in SO_2 and NOx emissions. Until such time as the relevant regulatory agencies make nonattainment designations and determine reductions required from local emissions sources, the Company is unable to determine what, if any, additional requirements may be imposed to achieve compliance with the revised NAAQS standards.

The costs to implement the respective proposed or final more stringent ozone, NO_2, SO_2, particulate matter or other standards under the NAAQS or CATR are not currently determinable. Depending upon whether the final rules or implementation methods incorporate additional emissions reduction requirements and the amounts of such reductions, such costs could be significant.

Hazardous Air Pollutants. As provided in 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 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 rules with different or more stringent requirements for reduction of mercury and other hazardous air pollutants. Kentucky has also repealed its corresponding state mercury regulations. At present, KU 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. If the new rules are more stringent and require additional reductions in emissions, the costs to achieve such reductions, while not yet determinable, could be significant.

Acid Rain Program. 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 Clean Air Act also contains 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 the 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. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's strategy for its Phase II SO_2 requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as, using accumulated emission allowances and fuel switching to defer certain additional capital expenditures. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, KU installed additional NOx controls, including SCR technology, during the 2000 through 2009 time period at a cost of $221 million. In 2001, the Kentucky Commission granted approval to recover the costs incurred by KU for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve mandated emissions reductions, KU expects to incur additional capital expenditures totaling approximately $235 million during the 2010 through 2012 time period for pollution controls including FGD and SCR equipment and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by the Company for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. KU believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner. 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, 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 met 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. In Copenhagen, the U.S. made a nonbinding commitment to, among other things, seek to reduce GHG emissions to 17% below 2005 levels by 2020 and provide financial support to developing countries. The United States and other nations are scheduled to meet in Cancun, Mexico in late 2010 to continue negotiations toward a binding agreement.

GHG Legislation KU 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. 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.

In September 2009, the Clean Energy Jobs and American Power Act, 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 incorporated allowance allocation provisions similar to the House bill. In 2010, Senators Kerry and Lieberman and others have undertaken additional work to draft GHG legislation but have introduced no bill in the Senate to date. In July 2010, Senate Majority Leader Reid announced that he did not anticipate that GHG legislation would be brought to the Senate floor in the current session. The Company is closely monitoring the progress of pending energy legislation, but 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 endanger public health and welfare, which is an initial rulemaking step under the Clean Air Act. A final endangerment finding was issued in December 2009. 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. In May 2010, the EPA issued a final GHG "tailoring" rule requiring new or modified sources with GHG emissions equivalent to at least 75,000 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 rule. The final rule will apply to new and modified power plants beginning in January 2011.

The Company is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted through legislation or regulations.

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, a three judge panel of 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. In March 2010, the court vacated the opinion of the three-judge panel and granted a motion for rehearing but subsequently denied the appeal due to the lack of a quorum. The appellate ruling leaves in effect the lower court ruling dismissing the plaintiffs' claims. 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 indirect parent of KU and LG&E, was included as a 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. KU and LG&E are currently unable to predict further developments in the Comer case. KU and LG&E continue to monitor relevant GHG litigation to identify judicial developments that may be potentially relevant to their operations.

Ghent Opacity NOV. In September 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's operating rules relating to opacity during June and July of 2007 at Units 1 and 3 of KU's Ghent generating station. The parties have met on this matter and KU has received no further communications from the EPA. The Company is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result.

Ghent New Source Review NOV. In March 2009, the EPA issued an NOV alleging that KU violated certain provisions of the Clean Air Act's rules governing new source review and prevention of significant deterioration by installing FGD and SCR controls at its Ghent generating station without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. In December 2009, the EPA issued a Section 114 information request seeking additional information on this matter. In March 2010, the Company received an EPA settlement proposal providing for imposition of additional permit limits and emission controls and anticipates continued settlement negotiations with the EPA. Depending on the provisions of a final settlement or the results of litigation, if any, resolution of this matter could involve significant increased operating and capital expenditures. 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 position or results of operations.

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 KU, 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 KU's impoundments, which the EPA found to be in satisfactory condition. In June 2010, the EPA published proposed regulations for coal combustion byproducts handled in landfills and ash ponds. The EPA has proposed two alternatives: (1) regulation of coal combustion byproducts in landfills and ash ponds as a hazardous waste or (2) regulation of coal combustion byproducts as a solid waste with minimum national standards. Under both alternatives, the EPA has proposed safety requirements to address the structural integrity of ash ponds. In addition, the EPA will consider potential refinements of the provisions for beneficial reuse of coal combustion byproducts. The EPA has also 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. Should the final rules require more stringent storage or disposal practices for these byproducts than currently in place or indirectly cause changes in other operational or generation practices, the costs of such revised practices, while not yet determinable, could be significant.

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County Station. Due to the preliminary stage of the proceedings, the Company is currently unable to predict the outcome or precise impact of this matter.

As a company with significant coal-fired generating assets, KU could be substantially impacted by pending or future environmental rules or legislation requiring mandatory reductions in GHG emissions or other air emissions, imposing more stringent standards on discharges to waterways, or establishing additional requirements for handling or disposal of coal combustion byproducts. However, the precise impact on its operations, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the finalization of such requirements. While the Company believes that many costs of complying with such pending or future requirements would likely be recoverable under the ECR or other potential cost-recovery mechanisms, this cannot be assured.

General Environmental Proceedings. From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include a prior Section 114 information request from the EPA relating to new-source issues at KU's Ghent 2 generation unit; completed settlement with state regulators regarding particulate limits in the air permit for KU's Tyrone generating station; remediation activities for or other risks relating to 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; and claims regarding the GHG emissions from the Company's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the Company's operations.

Note 8 - Related Party Transactions

KU, subsidiaries of E.ON U.S. and subsidiaries of E.ON engage in related party transactions. Transactions between KU and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between KU and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with FERC regulations under the Public Utility Holding Company Act of 2005 and the applicable Kentucky Commission and Virginia Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

KU and LG&E purchase energy from each other in order to effectively manage the load of their retail and wholesale customers. These sales and purchases are included in the statements of income as operating revenues, power purchased expense and other operations and maintenance expenses. KU's intercompany electric revenues and power purchased expense for the three and six months ended June 30, were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2010	2009	2010	2009
Electric operating revenues from LG&E	$ 4	$ 6	$ 11	$ 16
Power purchased from LG&E	24	28	49	60

Interest Charges

See Note 6, Short-Term and Long-Term Debt, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

KU's interest expense to affiliated companies for the three and six months ended June 30 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2010	2009	2010	2009
Interest on Fidelia loans	$ 19	$ 17	$ 37	$ 33

Interest expense paid to E.ON U.S. on the money pool arrangement was less than $1 million for the three and six months ended June 30, 2010 and 2009.

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 KU, labor and burdens of E.ON U.S. Services employees performing services for KU, coal purchases and other vouchers paid by E.ON U.S. Services on behalf of KU. The cost of these services is directly charged to the Company, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and other statistical information. These costs are charged on an actual cost basis.

In addition, KU and LG&E provide services to each other and to E.ON U.S. Services. Billings between KU and LG&E relate to labor and overheads associated with union and hourly employees performing work for the other utility, charges related to jointly-owned generating units and other miscellaneous charges. Billings from KU to E.ON U.S. Services include cash received by E.ON U.S. Services on behalf of KU, 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 KU for the three and six months ended June 30, were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2010	2009	2010	2009
E.ON U.S. Services billings to KU	$ 67	$ 38	$ 117	$ 78
KU billings to LG&E	1	36	1	47
LG&E billings to KU	12	-	19	-
KU billings to E.ON U.S. Services	-	1	-	2

In March 2009, the Company received capital contributions of $50 million from its common shareholder, E.ON U.S.

Intercompany Balances

The Company had the following balances with its affiliates as of June 30, 2010 and December 31, 2009:

(in millions)	June 30, 2010	December 31, 2009
Accounts receivable from E.ON U.S.	$ -	$ 9
Accounts payable to LG&E	18	53
Accounts payable to E.ON U.S. Services	15	20
Accounts payable to E.ON U.S.	18	-
Accounts payable to Fidelia	15	15
Notes payable to E.ON U.S.	84	45
Long-term debt to Fidelia (including current portion of $33 million)	1,331	1,331

Note 9 – Subsequent Events

Subsequent events have been evaluated through August 11, 2010, the date of issuance of these statements, and these statements contain all necessary adjustments and disclosures resulting from that evaluation.

On July 30, 2010, the Kentucky Commission issued an Order in the current base rate case approving all the provisions in the stipulation, with rates effective for service rendered on and after August 1, 2010.

On July 16, 2010, the FERC issued an Order on the one remaining renewable resource issue from the FERC rate case. The Order indicated that KU is not required to allocate a portion of any required renewable resources to the twelve municipalities, thus substantially resolving this issue.

Management's Discussion and Analysis

Overview

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU provides electric service to approximately 516,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 29,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee. KU's service area covers approximately 6,600 square miles. Approximately 99% of the electricity generated by KU is produced by its coal-fired electric generating stations. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled combustion turbines. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

KU is a wholly-owned subsidiary of E.ON U.S., an indirect wholly-owned subsidiary of E.ON, a German corporation. KU's affiliate, LG&E, 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 in Kentucky.

The following discussion and analysis by management focuses on those factors that had a material effect on KU's financial results of operations and financial condition during the three- and six-month periods ended June 30, 2010, and should be read in connection with the condensed financial statements and notes thereto and the Annual Report for the year ending December 31, 2009. Dollars are in millions, unless otherwise noted.

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, 2009.

PPL Acquisition

On April 28, 2010, E.ON U.S. announced that a Purchase and Sale Agreement (the "Agreement") had been entered into among E.ON US Investments, PPL and E.ON.

The Agreement provides for the sale of E.ON U.S. to PPL. Pursuant to the Agreement, at closing, PPL will acquire all of the outstanding limited liability company interests of E.ON U.S. for cash consideration of $2.1 billion. In addition, pursuant to the Agreement, PPL agreed to assume $925 million of pollution control bonds and to repay indebtedness owed by E.ON U.S. and its subsidiaries to E.ON US Investments and its affiliates. Such affiliate indebtedness is currently estimated to be $4.6 billion. The aggregate consideration payable by PPL on closing, $7.6 billion (including the assumed indebtedness), is subject to adjustment for specified incremental investment in E.ON U.S. that will potentially be made by E.ON US Investments and its affiliates prior to closing.

The transaction is subject to customary closing conditions, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Act, receipt of required regulatory approvals (including state regulators in Kentucky, Virginia and Tennessee, and the FERC) and the absence of injunctions or restraints imposed by governmental entities. Subject to receipt of required approvals, the transaction is expected to close by the end of 2010. Change of control and financing-related applications were filed on May 28, 2010, with the Kentucky Commission and on June 15, 2010, with the Virginia Commission and the Tennessee Regulatory Authority. An application with the FERC was filed on June 28, 2010. During the second quarter of 2010, a number of intervenors made entries into the Kentucky Commission proceedings and data request filings and responses occurred. Hearings in the Kentucky Commission proceedings are scheduled for September 8, 2010. Early termination of the final Hart-Scott-Rodino waiting period was received on August 2, 2010.

Based upon credit and financial market conditions, the anticipated PPL acquisition and other factors, the Company anticipates completing certain re-financing transactions and, where applicable, has applied for regulatory approvals for such transactions. KU anticipates issuing up to $1.6 billion in public first mortgage bonds, the proceeds of which will substantially be used to refund existing long-term intercompany debt. As required by existing covenants, in connection with the issuance of any such secured debt, KU would also collateralize certain outstanding pollution control bond debt series which are presently unsecured. Upon such collateralization, approximately $351 million in existing pollution control debt would become secured debt, supported by a first mortgage lien. Subject to regulatory approvals and other conditions, KU may complete these transactions, in whole or in part, during late 2010 and early 2011.

Regulatory Matters

In January 2010, KU filed an application with the Kentucky Commission requesting an increase in electric base rates of approximately 12%, or $135 million annually, including an 11.5% return on equity. KU requested the increase, based on the twelve month test year ended October 31, 2009, to become effective on and after March 1, 2010. The requested rates were suspended until August 1, 2010. A number of intervenors entered the rate case, including the Kentucky Attorney General's office, certain representatives of industrial and low-income groups and other third parties, and submitted filings challenging the Company's requested rate increases, in whole or in part. A hearing was held on June 8, 2010. KU and all of the intervenors except the AG agreed to a stipulation providing for an increase in electric base rates of $98 million annually and filed a request with the Kentucky Commission to approve such settlement. An Order in the proceeding was issued in July 2010, approving all the provisions in the stipulation, with rates effective on and after August 1, 2010.

In January 2009, a significant ice storm passed through KU's service territory causing approximately 199,000 customer outages and was followed closely by a severe wind storm in February 2009 that caused approximately 44,000 customer outages. KU incurred $57 million in incremental operation and maintenance expenses and $33 million in 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 $62 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 $62 million based on its actual costs for storm damages and service restoration due to the January and February 2009, storms. In

September 2009, the Company established a regulatory asset of $57 million for actual costs incurred. The Company received approval in its current base rate case to recover this asset over a ten year period beginning August 1, 2010.

Virginia Rate Case

In June 2009, KU filed an application with the Virginia Commission requesting an increase in electric base rates for its Virginia jurisdictional customers in an amount of $12 million annually or approximately 21%. The proposed increase reflected a proposed rate of return on rate base of 8.586% based upon a return on equity of 12%. During December 2009, KU and the Virginia Commission Staff agreed to a Stipulation and Recommendation authorizing base rate revenue increases of $11 million annually and a return on rate base of 7.846% based on a 10.5% return on common equity. A public hearing was held during January 2010. As permitted, pursuant to a Virginia Commission Order, KU elected to implement the proposed rates effective November 1, 2009, on an interim basis. In March 2010, the Virginia Commission issued an Order approving the stipulation, with the increased rates to be put into effect as of April 1, 2010. As part of the stipulation, KU refunded certain amounts collected since November 2009, consisting of interim rates in excess of the ultimate approved rates. These refunds, including interest, aggregated approximately $1 million and were made during May and June 2010. During the third quarter of 2010, a report is expected to be filed detailing the costs of the refunds, the accounts charged and details validating that all refunds have been made.

FERC Wholesale Rate Case

In September 2008, KU filed an application with the FERC for increases in electric base rates applicable to wholesale power sales contracts or interchange agreements involving, collectively, twelve Kentucky municipalities. The application requested a shift from current, all-in stated unit charge rates to an unbundled formula rate, including an annual adjustment mechanism. In May 2009, the FERC issued an Order approving a settlement among the parties in the case, incorporating increases of approximately 3% from prior rates and a return on equity of 11%. In May 2010, KU submitted to the FERC the proposed current annual adjustment to the formula rate. This updated rate became effective on July 1, 2010, subject to certain review procedures by the wholesale requirements customers and the FERC, including potential refunds in the case of disallowed costs or charges.

By mutual agreement, the parties' settlement of the 2008 application left outstanding the issue of whether KU must allocate to the municipal customers a portion of renewable resources it may be required to procure on behalf of its retail ratepayers. In August 2009, the FERC accepted the issue for briefing and the parties completed briefing submissions during 2009. An Order was issued by the FERC in July 2010, indicating that KU is not required to allocate a portion of any renewable resources to the twelve municipalities, thus resolving the remaining issue.

Environmental Matters

General. Protection of the environment is a major priority for KU and a significant element of its business activities. KU's properties and operations are subject to extensive environmental-related oversight by federal, state and local regulatory agencies, including via air quality, water quality, waste management and similar laws and regulations. Therefore, KU must conduct its operations in accordance with numerous permit and other requirements issued under or contained in such laws or regulations.

Climate Change. Recent developments continue to indicate an increased possibility of significant climate change or GHG legislation or regulation, at the international, federal, regional and state levels. During December 2009, as part of the United Nation's Copenhagen Accord, the United States agreed to a non-binding goal to reduce GHG emissions to 17% below 2005 levels by 2020. Additionally, during 2009, the U.S. House of Representatives passed comprehensive GHG legislation, which included a number of measures to limit GHG emissions and achieve GHG emission reduction targets below 2005 levels of 3%, 17% and 83% by 2012, 2020 and 2050, respectively, and the U.S. Senate is considering companion legislation. In late 2009, the EPA issued or proposed various regulatory initiatives relating to GHG matters, including an endangerment finding relating to mobile sources of GHGs, a GHG reporting requirement and a rule relating to permitting requirements for new or modified GHG emission sources. Finally, a number of U.S. states, although not currently including Kentucky, have adopted GHG-reduction legislation or regulation of various sorts. The developing GHG initiatives include a number of differing structures and formats, including direct limitations on GHG sources, issuance of allowances for GHG emissions, cap-and-trade programs for such allowances, renewable or alternative generation portfolio standards and mechanisms relating to demand reduction, energy efficiency, smart-grid, transmission expansion, carbon-sequestration or other GHG-reducing efforts. While the final terms and impacts of such initiatives cannot be estimated, KU, as a primarily coal-fired utility, could be highly affected by such proceedings.

The cost to KU and the effect on KU's business of complying with potential GHG restrictions will depend upon the details of the programs ultimately enacted. Some of the design elements which may have the greatest effect on KU include (a) the required levels and timing of any carbon caps or limits, (b) the emission sources covered by such caps or limits, (c) transition and mitigation provisions, such as phase-in periods, free allowances or price caps, (d) the availability and pricing of relevant GHG-reduction technologies, goods or services and (e) economic, market and customer reaction to electricity price and demand changes due to GHG limits. While the costs to comply with future GHG developments are not currently determinable, such costs could be significant.

Ultimately, environmental matters or potential environmental matters can represent an important element of current or future potential capital requirements, future unit retirement or replacement decisions, supply and demand for electricity, operating and maintenance expenses or compliance risks for the Company. While KU currently anticipates that many of such direct costs or effects may be recoverable through rates or other regulatory mechanisms, particularly with respect to coal-related generation, the availability, timing or completeness of such rate recovery cannot be assured. Ultimately, climate change matters could result in material effects on KU's results of operations, liquidity and financial position. See Management's Discussion and Analysis and Note 7 of Notes to Condensed Financial Statements for additional information.

Results of Operations

The electric utility business is affected by seasonal temperatures. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year.

Three Months Ended June 30, 2010, Compared to
Three Months Ended June 30, 2009

Net Income

Net income was $31 million for the three months ended June 30, 2010, compared to $26 million for the same period in 2009. The increase was primarily the result of the following:

	Three Months Ended June 30, 2010	2009	Increase (Decrease)
Total operating revenues	$ 350	$ 305	$ 45
Total operating expenses	279	252	27
Operating income	71	53	18
Equity in loss of unconsolidated venture	1	1	-
Other expense (income) - net	1	(3)	4
Interest expense	1	1	-
Interest expense to affiliated companies	19	17	2
Income before income taxes	49	37	12
Income tax expense	18	11	7
Net income	$ 31	$ 26	$ 5

Operating Revenues

The $45 million increase in operating revenues in the three months ended June 30, 2010, was primarily due to:

	Increase (Decrease)
Retail sales volumes (a)	$ 29
Retail FAC costs billed to customers due to higher fuel prices	11
ECR surcharge due to increased recoverable capital spending	3
DSM revenue due to increased recoverable program spending	2
Retail base rates	2
Miscellaneous operating revenues	1
Wholesale sales to LG&E due to volume (b)	(3)
	$ 45

(a) Primarily due to increased consumption by residential customers as a result of increased cooling degree days and higher energy usage by industrial customers as a result of improved economic conditions
(b) Primarily due to increased energy demand from industrial and residential customers at LG&E and increased coal-fired generation unit outages at LG&E in the second quarter of 2010. Via a mutual agreement, KU purchases LG&E's lower cost electricity to serve KU's native load, and KU sells its higher cost electricity to LG&E for LG&E to make wholesale sales.

Operating Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC. Operating expenses for the three months ended June 30, follow:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Increase (Decrease)
Fuel for electric generation	$ 119	$ 100	$ 19
Power purchased	40	43	(3)
Other operation and maintenance expenses	86	76	10
Depreciation and amortization	34	33	1
Total operating expenses	$ 279	$ 252	$ 27

Fuel for Electric Generation

The $19 million increase in fuel for electric generation in the three months ended June 30, 2010, was primarily due to increased volumes of fuel usage due to increased native load sales.

Power Purchased

The $3 million decrease in power purchased expense in the three months ended June 30, 2010, was primarily due to:

	Increase (Decrease)
Third-party purchased volumes for native load	$ (6)
Purchases from LG&E due to volume (a)	(4)
Demand payments for third-party purchases	(2)
OMU settlement received in 2009 (b)	6
Prices for purchases used to serve retail customers	3
	$ (3)

(a) Via a mutual agreement, KU purchases LG&E's lower cost electricity to serve KU's native load. LG&E provided lower volumes due to its increased energy demand from residential and industrial customers from warmer temperatures and due to increased coal-fired generation unit outages during the second quarter of 2010.

(b) See Note 7 of Notes to Condensed Financial Statements for further discussion of the OMU settlement.

Other Operation and Maintenance Expenses

Other operation and maintenance expenses increased $10 million in the three months ended June 30, 2010, due to $7 million of increased other operation expenses and $3 million of increased maintenance expenses.

Other Operation Expenses

The $7 million increase in other operation expenses in the three months ended June 30, 2010, was primarily due to:

	Increase (Decrease)
Steam expense due to increased generation in 2010	$ 2
Transmission expense	2
OMU settlement received in 2009	2
DSM expense due to expanded programs and new projects	2
Bad debt expense	1
MISO RSG resettlements incurred in 2009	(1)
Property and other taxes reduction resulting from an increased coal tax credit	(1)
	$ 7

Maintenance Expenses

The $3 million increase in maintenance expenses in the three months ended June 30, 2010, was primarily due to:

	Increase (Decrease)
Combustion turbine maintenance	$ 1
Administrative and general	1
Distribution expense	1
	$ 3

Other Expense (Income) – net

The $4 million increase in other expense (income) – net in the three months ended June 30, 2010, was primarily due to:

	Increase (Decrease)
Discontinuance of allowance for funds used during construction on ECR projects resulting from FERC rate case	$ 1
Depreciation expense on TC2 joint-use assets held for future use	1
Gain on key man life insurance payout in 2009	1
Decreased interest income from other loans and receivables	1
	$ 4

Interest Expense

The $2 million increase in interest expense, including interest expense to affiliated companies, in the three months ended June 30, 2010, was primarily due to increased intercompany notes outstanding.

Income Tax Expense

See Note 5 of Notes to Condensed Financial Statements for a reconciliation of differences between the statutory U.S. federal income tax expense and KU's income tax expense.

Six Months Ended June 30, 2010, Compared to
Six Months Ended June 30, 2009

Net Income

Net income was $75 million for the six months ended June 30, 2010, compared to $33 million for the same period in 2009. The increase was primarily the result of the following:

	Six Months Ended June 30, 2010	2009	Increase (Decrease)
Total operating revenues	$ 730	$ 668	$ 62
Total operating expenses	572	596	(24)
Operating income	158	72	86
Equity in earnings of unconsolidated venture	(2)	(1)	(1)
Other expense - net	1	(6)	7
Interest expense	3	3	-
Interest expense to affiliated companies	37	33	4
Income before income taxes	119	43	76
Income tax expense	44	10	34
Net income	$ 75	$ 33	$ 42

Operating Revenues

The $62 million increase in operating revenues in the six months ended June 30, 2010, was primarily due to:

	Increase (Decrease)
Retail sales volumes (a)	$ 59
DSM revenue due to increased recoverable program spending	7
Miscellaneous operating revenue (b)	6
Merger surcredit	1
Wholesale sales to LG&E due to volume (c)	(5)
Retail FAC	(3)
Gains in energy marketing financial swaps	(2)
Wholesale sales to LG&E due to fuel price	(1)
	$ 62

(a) Primarily due to increased consumption by residential customers as a result of increased cooling degree days and higher energy usage by industrial customers as a result of improved economic conditions

(b) Primarily related to increased late payment charges ($4 million) and transmission service revenues ($1 million)
(c) Primarily due to increased energy demand from industrial and residential customers at LG&E and increased coal-fired generation unit outages at LG&E in the first six months of 2010. Via a mutual agreement, KU purchases LG&E's lower cost electricity to serve KU's native load and KU sells its higher cost electricity to LG&E for LG&E to make wholesale sales.

Operating Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC. Operating expenses for the six months ended June 30 follow:

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Increase (Decrease)
Fuel for electric generation	$ 245	$ 215	$ 30
Power purchased	94	107	(13)
Other operation and maintenance expenses	165	208	(43)
Depreciation and amortization	68	66	2
Total operating expenses	$ 572	$ 596	$ (24)

Fuel for Electric Generation

The $30 million increase in fuel for electric generation in the six months ended June 30, 2010, was primarily due to:

	Increase (Decrease)
Fuel usage volumes due to increased native load sales	$ 41
Commodity and transportation costs for coal	(11)
	$ 30

Power Purchased

The $13 million decrease in power purchased expense in the six months ended June 30, 2010, was primarily due to:

	Increase (Decrease)
Purchases from LG&E due to volume (a)	$ (10)
Third-party purchased volumes for native load	(6)
Demand payments for third-party purchases	(2)
Purchases from LG&E due to fuel costs	(1)
OMU settlement received in 2009 (b)	6
	$ (13)

(a) Via a mutual agreement, KU purchases LG&E's lower cost electricity to serve KU's native load. LG&E provided lower volumes due to its increased energy demand from residential and industrial customers from colder weather in the first quarter and warmer temperatures in the second quarter of 2010, and due to increased coal-fired generation unit outages in the first six months of 2010.
(b) See Note 7 of Notes to Condensed Financial Statements for further discussion of the OMU settlement

Other Operation and Maintenance Expenses

Other operation and maintenance expenses decreased $43 million in the six months ended June 30, 2010, due to $53 million of decreased maintenance expenses and $10 million of increased other operation expenses.

Maintenance Expenses

The $53 million decrease in maintenance expenses in the six months ended June 30, 2010 was primarily due to:

	Increase (Decrease)
Distribution expense incurred in 2009 due to winter storm restoration	$ (51)
Turbine outages in 2009	(3)
Transmission expense	(1)
Administrative and general expense (a)	2
	$ (53)

(a) Labor and system maintenance contracts resulting from a significant in-house customer information system project completed during the second quarter of 2009

Other Operation Expenses

The $10 million increase in other operation expenses in the six months ended June 30, 2010, was primarily due to:

	Increase (Decrease)
Transmission expense (a)	$ 5
Administrative and general (b)	4
Steam expense due to increased generation in 2010	3
DSM expense due to expanded programs and new projects	3
OMU settlement received in 2009	2
Distribution expense resulting from 2009 winter storm restoration	(4)
Property and other tax reduction resulting from an increased coal tax credit	(2)
Other power expense due to MISO RSG resettlements in 2009	(1)
	$ 10

(a) Primarily due to the establishment of a regulatory asset approved by the Kentucky Commission for the EKPC settlement in 2009 and six months of amortization expense recorded in 2010, as well as increased transmission expense due to transmission charges for FERC jurisdictional municipal customers now unbundled from energy.
(b) Primarily due to bad debt expense increased due to higher billed revenues, implementation of a late payment charge and a higher net charge-off percentage

Equity in Earnings of Unconsolidated Venture

The $1 million increase in equity in earnings of unconsolidated venture in the six months ended June 30, 2010, was primarily due to higher EEI earnings resulting from increased market prices.

Other Expense – net

The $7 million increase in other expense – net in the six months ended June 30, 2010, was primarily due to:

	Increase (Decrease)
Discontinuance of allowance for funds used during construction on ECR projects resulting from FERC rate case	$ 3
Depreciation expense on TC2 joint-use assets held for future use	2
Gain on key man life insurance payout in 2009	1
Decreased interest income from other loans and receivables	1
	$ 7

Interest Expense

The $4 million increase in interest expense, including interest expense to affiliated companies, in the six months ended June 30, 2010, was primarily due to increased intercompany notes outstanding.

Income Tax Expense

See Note 5 of Notes to Condensed Financial Statements for a reconciliation of differences between the statutory U.S. federal income tax expense and KU's income tax expense.

Financial Condition

Liquidity and Capital Resources

(millions)	June 30, 2010	December 31, 2009
Cash and cash equivalents	$ 3	$ 2
Current portion of long-term bonds	228	228
Current portion of long-term debt to affiliated company	33	33
Notes payable to affiliated company	84	45

The $1 million increase in KU's cash and cash equivalents in the six months ended June 30, 2010, was primarily the net result of:

	Increase (Decrease)
Cash provided by operating activities	$ 155
A net increase in short-term borrowings from affiliated company	39
Construction expenditures	(145)
Expenditures to purchase assets from affiliate	(48)
	$ 1

Working Capital Deficiency

As of June 30, 2010, KU had a working capital deficiency of $189 million, primarily due to the terms of certain tax-exempt bonds totaling $228 million, which allow the investors to put the bonds back to the Company causing them to be classified as current portion of long-term bonds. The Company has adequate liquidity facilities to repurchase any bonds put back to the Company. Working capital deficiencies can be funded through an intercompany money pool agreement through bilateral lines of credit or drawings under letters of credit. See Note 6 of Notes to Condensed Financial Statements. KU believes that its sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

Auction Rate Securities

Auctions for auction rate securities issued by KU continued to fail during the quarter. KU did not hold any of its own auction rate securities at June 30, 2010 and December 31, 2009. See Note 6 of Notes to Condensed Financial Statements for further discussion of auction rate securities.

Debt

Regulatory approvals are required for KU to incur additional debt. The Virginia Commission and the FERC authorize the issuance of short-term debt while the Kentucky Commission, the Virginia Commission and the Tennessee Regulatory Authority authorize the issuance of long-term debt. In November 2009, KU received a two-year authorization from the FERC to borrow up to $400 million in short-term funds. KU also has authorization from the Virginia Commission that expires at the end of 2011, allowing short-term borrowing of up to $400 million. These short-term funds are made available via the Company's participation in an intercompany money pool agreement wherein E.ON U.S. and/or LG&E make funds available to KU at market-based rates (based on highly rated commercial paper issues) up to $400 million.

See Note 6 of Notes to Condensed Financial Statements for information on redemptions, maturities and issuances of long-term debt.

Common Stock Dividends

During 2010, the Company has not paid dividends to its common shareholder, E.ON U.S. KU uses net cash generated from its operations and external financing (including financing from affiliates) to fund the payment of dividends. Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, financial requirements and other factors.

Credit Ratings

The Company's debt ratings as of June 30, 2010, 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. In connection with E.ON U.S.'s announcement that E.ON and E.ON US Investments Corp. had entered into a definitive agreement with PPL to sell to PPL all the equity interests of E.ON U.S., Moody's placed the debt ratings of the Company under review for possible downgrade. S&P affirmed the existing ratings of the Company. See Note 6 of Notes to Condensed Financial Statements for a discussion of recent downgrade actions related to the pollution control revenue bonds caused by a change in the rating of the entity insuring those bonds.

KU has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel and interest rate instruments, which contain provisions requiring KU to post additional collateral or permit the counterparty to terminate the contract if KU's credit rating were to fall below investment grade. At June 30, 2010, if KU's credit rating had been below investment grade, the Company would not have been required to post collateral to counterparties for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations and interest rate contracts.

Future Capital Requirements

KU's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed, and appropriate revisions are made, when necessary, in construction schedules. KU expects its capital expenditures for the three-year period ending December 31, 2012, to total approximately $1.1 billion, consisting primarily of the following:

($ in millions)	
Construction of generation assets	$ 290
Construction of distribution assets	250
Ash pond and landfill projects	235
Brown SCR	150
Installation of FGDs on Ghent and Brown units	130
Information technology projects	35
Other projects	25
Construction of TC2 (includes $5 million for environmental controls)	25
	$ 1,140

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. KU anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

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 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 condensed 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.

KU 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, 2009, 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, 2009, the Company's internal control over financial reporting was effective based on those criteria. There have been no changes in the Company’s internal control over financial reporting that occurred during the six months ended June 30, 2010, 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, 2009, was audited by PricewaterhouseCoopers LLP, an independent accounting firm, as stated in its report which is included in the 2009 KU Annual Report.

Legal Proceedings

For a description of the significant legal proceedings, including, but not limited to, certain rates and regulatory, environmental, climate change and litigation matters, involving KU, reference is made to the information under the following captions of the Company's Annual Report for the year ended December 31, 2009: 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 9 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, 2009 have not materially changed.

Other

In the normal course of business, other lawsuits, claims, environmental actions and other governmental proceedings arise against KU. To the extent that damages are assessed in any of these lawsuits, 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.

Kentucky Utilities Company
Case No. 2012-00221
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(6)(t)
Sponsoring Witness: Valerie L. Scott

Description of Filing Requirement:

If the utility had any amounts charged or allocated to it by an affiliate or general or home office or paid any monies to an affiliate or general or home office during the test period or during the previous three (3) calendar years, the utility shall file:

1. *A detailed description of the method and amounts allocated or charged to the utility by the affiliate or general or home office for each charge allocation or payment;*

2. *An explanation of how the allocator for the test period was determined; and*

3. *All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated or paid during the test period was reasonable.*

Response:

1. Please see the attached schedule for a description of the amounts charged or allocated to KU. The method of allocation is set forth in the attached Cost Allocation Manual. The Cost Allocation Manual is periodically filed with the Commission. The most recent version is attached to this schedule;

2. The allocator for the test period was determined using the methodology set forth in the Cost Allocation Manual; and

3. The amounts charged, allocated or paid during the test period were reasonable for the following reasons:

   (i) the allocations are based on objective criteria and appropriately reflect cost-causation relationships; (ii) the allocations are made utilizing the methodology set forth in the Cost Allocation Manual; and (iii) the allocations are reviewed annually to assure that they have been made in accordance with the Cost Allocation Manual and reflect appropriate cost-causation relationships.

Kentucky Utilites Company
Intercompany Charges

	04/11 - 03/12	**01/11 - 12/11**	**01/10 - 12/10**	**01/09 - 12/09**
Billed From:				
Louisville Gas & Electric Company	435,477,658	491,809,097	626,576,715	460,109,510
LG&E and KU Services Company	712,781,942	725,223,510	776,745,999	664,085,673

LG&E and KU Services Company

Cost Allocation Manual

LG&E and KU Services Company
Cost Allocation Manual

CAM	Cost Allocation Manual
CCS	Customer Care System
EMS	Energy Management System
FERC	Federal Energy Regulatory Commission
HR	Human Resources
IT	Information Technology
KPSC	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LEM	LG&E Energy Marketing Inc.
LG&E	Louisville Gas and Electric Company
LKC	LG&E and KU Capital LLC (formerly E.ON U.S. Capital Corp.)
LKE	LG&E and KU Energy LLC (formerly E.ON U.S. LLC and LG&E Energy LLC)
LKE Foundation	LG&E and KU Foundation (formerly E.ON U.S. Foundation Inc.)
PPL	PPL Corporation
PUHCA 2005	The Public Utility Holding Company Act of 2005
SEC	U.S. Securities and Exchange Commission
Servco	LG&E and KU Services Company (formerly E.ON U.S. Services Inc.)
VSCC	Virginia State Corporation Commission

LG&E and KU Services Company
Cost Allocation Manual

Table of Contents

I. INTRODUCTION

PUHCA 2005 states that centralized service companies must maintain and make available to the FERC their books, accounts and other records in the specific manner and preserve them for the required periods as the FERC prescribes in Title 18 Code of Federal Regulations Part 368 of the FERC Uniform System of Accounts. These records must be in sufficient detail to permit examination, audit, and verification, as necessary and appropriate for the protection of utility customers with respect to jurisdictional rates. The purpose of this CAM is to document the methods, policies and procedures that Servco will follow in performing certain services for affiliate companies. In developing this CAM the overriding goal was to protect investors and consumers by ensuring the methods, policies and procedures contained in this CAM were PUHCA 2005 compliant so that Servco costs are fully segregated, and fairly and equitably allocated among the affiliate companies. Servco was authorized to conduct business as a service company for LKE and its various subsidiaries and affiliates by order of the SEC on December 6, 2000, and commenced operations January 1, 2001. LKE is a Kentucky limited liability company and the parent of KU and LG&E. KU and LG&E are subject to the jurisdiction of and oversight by the KPSC. In addition, KU is subject to the jurisdiction of and oversight by the VSCC and the Tennessee Regulatory Authority. Under Kentucky regulatory law, KU and LG&E are required to have a cost allocation manual on file with the KPSC. KU is required to have a services agreement for any affiliate transaction approved by the VSCC prior to the transaction.

Periodic changes to the CAM may be necessary due to future management decisions, changes in the law, interpretations by state or federal regulatory bodies, changes in structure or activities of affiliates, or other internal procedures.

II. CORPORATE ORGANIZATION

OVERVIEW

LKE is an indirect wholly-owned subsidiary of PPL, headquartered in Allentown, Pennsylvania. LKE has five direct subsidiaries: LG&E, KU, LKC, LEM, and Servco. LKE has an affiliate relationship with LKE Foundation due to overseeing all operations of the foundation.

LKE and its utility subsidiaries are engaged principally in the generation, transmission, distribution and sale of electricity. LG&E is also engaged in the storage, distribution, and sale of natural gas. LKE and its subsidiaries are subject to the regulatory provisions of PUHCA 2005. LG&E and KU are subject to regulation by the FERC and the KPSC. KU is also subject to regulation by state utility commissions in Virginia and Tennessee.

UTILITY OPERATIONS

LG&E, incorporated in Kentucky in 1913, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the storage, distribution and sale of natural gas. LG&E is a wholly-owned subsidiary of LKE. LG&E supplies electricity and natural gas to customers in Louisville and adjacent areas in Kentucky. LG&E's electric service area covers approximately 700 square miles in 9 counties in Kentucky and its natural gas service area covers the same area and an additional 8 counties in Kentucky.

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU is a wholly-owned subsidiary of LKE. KU provides electricity to customers in 77 counties in central, southeastern and western Kentucky, to customers in 5 counties in southwestern Virginia and to fewer than 5 customers in Tennessee.

SERVICE COMPANY

Servco, a Kentucky corporation, is a centralized service company registered under PUHCA 2005 and is authorized to conduct business as a service company for LKE and its various subsidiaries and affiliates by order of the SEC dated December 6, 2000, and commencing operation January 1, 2001. Servco is the service company for affiliated entities, including LKE, LG&E, KU, LKC, and LEM and provides a variety of administrative, management, engineering, construction, environmental and support services. Servco provides its services at cost, as permitted under PUHCA 2005.

Development of the Servco organization was predicated on the fact that if the employee performed activities benefiting more than one affiliate, that employee would become a part of the Servco organization. In many respects, employees working in typical finance, administrative and general, management and other support departments are fully subject to Servco organizational placement.

Many operational employees dedicated to providing a service to just one affiliate, by definition, are not subject to Servco placement. However management and support staff overseeing the business activities of more than one of these operational groups are subject to Servco placement.

On September 30, 2010, Servco changed its legal name to LG&E and KU Services Company from E.ON U.S. Services Inc.

OTHER BUSINESS OPERATIONS

LKE Foundation, a charitable foundation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, makes charitable contributions to qualified entities.

LKC is a holding company for other LKE non-utility businesses which are generally inactive from an operational standpoint, but have certain remaining support or contingent business obligations.

LEM is an inactive non-utility company.

Servco transacts business for LKE Foundation, LKC, LEM and PPL and its affiliates on behalf of LKE.

III. TRANSACTIONS WITH AFFILIATES

OVERVIEW

LKE formed Servco, as a service company to provide services for affiliated companies. Servco and affiliated companies (or their parent entities) may enter into service agreements, which may establish the general terms and conditions for providing those services, including those mentioned in Section IV of the CAM.

At formation certain LG&E, KU and LKE employees became employees of Servco and such employees continued to provide services to the regulated and non-regulated entities.

Regulated affiliates receive services at cost, pursuant to the service agreements. Non-regulated affiliates generally receive services at cost; however, certain services may permit pricing at fair-market value. The provisions included in contracts or service agreements govern transactions between Servco and the regulated and non-regulated affiliates.

KU and LG&E are required by the KPSC and the VSCC to use the "stand alone" method for allocating their respective tax liabilities (or tax benefits) so that such tax liabilities (or tax benefits) will not exceed the tax liabilities (or tax benefits) each would incur if it filed its tax returns separately from the consolidated returns filed by PPL Corporation. KU and LG&E have filed a separate PPL Corporation and Subsidiaries tax allocation agreement with the KPSC and the VSCC. The allocation of the respective tax liabilities (or tax benefits) of KU and LG&E therefore are not within the scope of this CAM.

Definitions of Cost

Tariff Rate **–** The price charged to customers under applicable tariffs on file with federal or state regulatory commissions.
Fair Market Value **–** The price held out by a providing entity to the general public in the normal course of business (i.e. the price at which a reasonable buyer and a reasonable seller are willing to transact in the normal course of business).
Cost **–** The charge used for transactions with affiliates for which no tariff rate or fair market value is applicable. Servco follows the definition of cost defined in PUHCA 2005.

IV. DESCRIPTION OF SERVICES

The following table provides service descriptions along with the frequency of services provided and the primary affiliate receiving the services. See below for definitions of frequency and primary affiliates. The table also contains the cost assignment methods used to allocate costs for these services when necessary. Detailed descriptions of cost assignment methods are provided in Section V.

Definitions of Frequency

***Ongoing* –** Provided on a prearranged, continuous basis (i.e., daily)
***Frequent* –** Provided as requested on a regular basis (i.e., several times per month)
***Infrequent* –** Provided as requested on an irregular basis (i.e., several times per year)

Definitions of Primary Affiliates

All charges by Servco to affiliated entities follow the principle of fully distributed cost. Primary affiliates receiving the service are designated below as:

R **–** Regulated (LG&E and KU)
NR **–** Non-regulated (LKC, LEM and LKE Foundation)
A **–** All

Service	Description	Assignment Method	Frequency	Primary Affiliate
Retail Business Services - Includes Customer Service; Sales and Marketing; Economic Development and Major Accounts; Meter Reading; Meter Operations; Meter Asset Management; Cash Remittance; Billing Integrity; Energy Efficiency; and, CCS Retail Business Readiness		Number of Customers Ratios; Departmental Charge Ratio; Number of Meters Ratio; Revenue Ratio		
Customer Service	Providing call center and customer communication services for both electric and gas customers	Number of Customers Ratios	Ongoing	R
Sales and Marketing	Providing programs for establishing strategies, oversight for marketing, sales and branding of utility and related services, and conducting marketing and sales programs for economic development, and demand side management.	Departmental Charge Ratio	Frequent	R
Economic Development and Major Accounts	Maintaining community development, partnerships with state, regional, and local economic development allies, and customized products and services.	Number of Customers Ratio	Frequent	R
Meter Reading	Providing meter reading and meter data services.	Departmental Charge Ratio	Ongoing	R
Meter Operations	Conducting the testing of meters, completion of all customer-requested service/field credit orders and the installation of commercial/industrial meters.	Number of Meters Ratio	Ongoing	R
Meter Asset Management	Maintaining inventory, quality and environmental issues, policy and standards, technical support, and logistics.	Number of Meters Ratio	Ongoing	R
Cash Remittance	Providing remittance processing, customer payments, and collection services.	Revenue Ratio	Ongoing	R

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Cost Allocation Manual

Service	Description	Assignment Method	Frequency	Primary Affiliate
Billing Integrity	Administering and providing customer billings and credit reviews.	Number of Customers Ratios	Ongoing	R
Energy Efficiency	Providing energy efficiency programs to residential and commercial customers to encourage implementation of energy saving measures.	Number of Customers Ratios	Ongoing	R
CCS Retail Business	Providing end user support services, development and capture of business metrics and development, and delivery of training for the Company's CCS.	Number of Customers Ratios	Ongoing	R
Energy Services - Includes Project Engineering; System Laboratory; Generation; Fuel Procurement; Transmission Strategy and Planning; Transmission Protection and Substation; Transmission Line; Transmission Reliability and Compliance; Transmission System Operations; Transmission EMS; Transmission Policy & Tariffs; Transmission Balancing Authority; and, Project Development Services		Total Assets Ratio; Departmental Charge Ratio; Total Utility Plant Asset Ratio; Contract Ratio		
Project Engineering	Coordinating and managing all major generation construction.	Total Assets Ratio	Infrequent	R
System Laboratory	Providing system laboratory services to the generating stations.	Departmental Charge Ratio	Ongoing	R
Generation	Providing centralized, fleet-wide technical expertise for generation asset management, technical guidance for various functional initiatives and coordination of operational research and development.	Total Utility Plant Asset Ratio	Ongoing	R
Fuel Procurement	Procuring coal, natural gas, oil and other bulk materials for generation facilities and ensuring compliance with price and quality provisions of fuel contracts.	Contract Ratio	Ongoing	R

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Service	Description	Assignment Method	Frequency	Primary Affiliate
Transmission Strategy and Planning	Providing transmission system reliability planning and identifying current and future upgrades that are needed to maintain reliability.	Departmental Charge Ratio	Ongoing	R
Transmission Protection and Substation	Coordinating and managing all maintenance and capital upgrades to transmission substations.	Departmental Charge Ratio	Ongoing	R
Transmission Line	Coordinating and managing all maintenance and capital upgrades to the transmission lines.	Departmental Charge Ratio	Ongoing	R
Transmission Reliability and Compliance	Ensuring that the Transmission Department is complying with all applicable regulatory standards.	Departmental Charge Ratio	Ongoing	R
Transmission System Operations	Providing transmission system control center services.	Departmental Charge Ratio	Ongoing	R
Transmission EMS	Managing and maintaining the Energy Management System.	Departmental Charge Ratio	Ongoing	R
Transmission Policy & Tariffs	Coordinating and managing transmission tariffs and agreements with outside parties for use of the transmission system.	Departmental Charge Ratio	Ongoing	R
Transmission Balancing Authority	Coordinating and managing the balance between scheduled transmission usage and actual transmission usage by other companies.	Departmental Charge Ratio	Ongoing	R
Project Development	Providing project development services to identify and develop potential future sources of energy and capacity to meet the Company’s power supply needs.	Departmental Charge Ratio	Ongoing	R

Service	Description	Assignment Method	Frequency	Primary Affiliate
Energy Marketing Services – Includes Energy Marketing; Market Forecasting; Load Forecasting; and, Generation Planning and Analysis Services		Generation Ratio; Electric Peak Load Ratio; Departmental Charge Ratio		
Energy Marketing	Providing market services to take advantage of the highest excess generation prices in the open market.	Generation Ratio	Ongoing	R
Market Forecasting	Providing management services for financial forecasts of the utility market.	Generation Ratio	Frequent	R
Load Forecasting	Providing short- and long-term load forecasting services.	Generation Ratio	Frequent	R
Generation Planning and Analysis	Providing short- and long-term generation planning services	Electric Peak Load Ratio	Ongoing	R
Distribution Operations Services – Includes Network Trouble and Dispatch; Mapping and Records Management; Electric Engineering; Distribution Asset Management; and, Substation Construction and Maintenance Services.		Departmental Charge Ratio; Total Assets Ratio		
Network Trouble and Dispatch	Providing dispatch services, reporting outage situations and coordinating restoration.	Departmental Charge Ratio	Ongoing	R
Mapping and Records Management	Providing and maintaining the mapping of the electric infrastructure.	Departmental Charge Ratio	Ongoing	R
Electric Engineering	Providing development engineering and construction standards, distribution system planning and analysis, substation construction project management and	Departmental Charge Ratio	Ongoing	R

Service	Description	Assignment Method	Frequency	Primary Affiliate
	telecommunications systems design and analyses.			
Distribution Asset Management	Leading management and investment decisions regarding distribution assets, including resource allocation, developing uniform standards and procedures, determining performance targets and managing assets information and data.	Total Assets Ratio	Ongoing	R
Substation Construction and Maintenance	Providing engineering and design services for substation construction, maintenance and operations areas.	Departmental Charge Ratio	Frequent	R
Finance and Corporate Development Services – Includes Budgeting; Financial Planning; and, Financial Systems Services		Revenue, Total Assets and Number of Employees Ratio; Number of Employees Ratio; Departmental Charge Ratio		
Budgeting	Providing services related to managing, coordinating and reporting for the budgeting process.	Revenue, Total Assets and Number of Employees Ratio	Frequent	A
Financial Planning	Providing services related to financial planning and forecasting services, investment analysis and investment planning reports.	Revenue, Total Assets and Number of Employees Ratio	Frequent	A
Financial Systems	Providing business support and electronic data processing services for all financial systems including Oracle Applications, PowerPlant and PowerTax.	Number of Employees Ratio	Ongoing	A

Service	Description	Assignment Method	Frequency	Primary Affiliate
Controller Organization Services – Includes Internal Financial and Management Reporting; External Financial Reporting; Accounting and Reporting; Sundry Billing; Property Accounting; Energy Marketing Accounting; Revenue Accounting; and, Sarbanes-Oxley Compliance Services		Revenue, Total Assets and Number of Employees Ratio; Total Utility Plant Assets Ratio; Energy Marketing Ratio; Retail Revenue Ratio; Departmental Charge Ratio		
Internal Financial and Management Reporting	Providing internal financial reports including standard and ad hoc management reporting.	Revenue, Total Assets and Number of Employees Ratio	Frequent	A
External Financial Reporting	Providing financial reports required or used by various external constituencies such as the FERC, the Kentucky Public Service Commission, the Virginia State Corporation Commission, U.S. Department of Energy (DOE), Internal Revenue Service, Municipal Securities Rulemaking Board and financial institutions.	Revenue, Total Assets and Number of Employees Ratio	Frequent	A
Accounting and Reporting	Providing accounting and reporting in conformity with U.S. Generally Accepted Accounting Principles (GAAP) and the FERC Uniform System of Accounts (USofA), providing accounting research and interpretation and promulgation of accounting and internal control procedures, and performing U.S. GAAP general ledger account and project analyses, reconciliations, and consolidation.	Revenue, Total Assets and Number of Employees Ratio	Ongoing	A

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Service	Description	Assignment Method	Frequency	Primary Affiliate
Sundry Billing	Processing miscellaneous and non-standard billings and maintaining and monitoring associated accounts receivable.	Revenue, Total Assets and Number of Employees Ratio	Ongoing	A
Property Accounting	Maintaining, analyzing and reporting related to property records.	Total Utility Plant Assets Ratio	Ongoing	A
Energy Marketing Accounting	Performing month-end validation of all power transactions and resolving any discrepancies; preparing invoices and wires; validating bills from counterparties; preparing accounting, allocation and analysis of wholesale sales, wholesale purchases, and intercompany sales and purchases; and preparing various FERC, Fuel Adjustment Clause, Southwest Power Pool, and DOE reports.	Energy Marketing Ratio	Ongoing	A
Revenue Accounting	Managing and analyzing internal and external revenue reporting.	Retail Revenue Ratio	Ongoing	R
Sarbanes-Oxley Compliance	Providing coordination, implementation and maintenance of the Company's program for compliance with the Sarbanes-Oxley Act of 2002.	Departmental Charge Ratio	Ongoing	A
Corporate Tax and Payroll Organization Services – Includes Payroll; Tax Accounting, Compliance and Reporting; Tax Planning; and, Tax Special Projects Services		Revenue, Total Assets and Number of Employees Ratio; Number of Employees Ratio; Departmental Charge Ratio		

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Service	Description	Assignment Method	Frequency	Primary Affiliate
Payroll	Providing payroll services including the managing of payroll systems.	Number of Employees Ratio	Ongoing	A
Tax Accounting, Compliance and Reporting	Preparing consolidated and subsidiary federal, state and local income tax returns; current and deferred tax accounting; utility gross receipts tax; sales/use tax; LKE Foundation returns and supporting roles for business development, and tax legislation.	Revenue, Total Assets and Number of Employees Ratio	Ongoing	A
Tax Planning	Providing detailed forecasting of foreign, federal and state taxes, as well as capital based and property tax planning.	Revenue, Total Assets and Number of Employees Ratio	Infrequent	A
Tax Special Projects	Providing business or project development, asset dispositions, tax credit studies, review/analysis of proposed tax legislation, etc.	Revenue, Total Assets and Number of Employees Ratio	Infrequent	A
Audit Services – Includes Audit Services		Project Ratio; Departmental Charge Ratio		
Audit Services	Providing independent and objective assurance along with consulting services and internal controls system review.	Project Ratio	Ongoing	A
Corporate Finance and Treasury Services – Includes Cash Management and Investment; Corporate Finance; Risk Management; Credit Administration; Energy Marketing Trading Controls; and, Energy Marketing Contract Administration Services		Revenue, Total Assets and Number of Employees Ratio; Total Utility Plant Assets Ratio; Generation Ratio		

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Service	Description	Assignment Method	Frequency	Primary Affiliate
		Departmental Charge Ratio		
Cash Management and Investment	Providing management and monitoring of cash flows including review and acquisition of business entity cash requirements and procurement of short-term financing and credit lines.	Revenue, Total Assets and Number of Employees Ratio	Ongoing	A
Corporate Finance	Providing overall finance options including evaluating new financing vehicles and instruments, analyzing existing financing positions and raising long-term funds for all entities.	Revenue, Total Assets and Number of Employees Ratio	Ongoing	A
Risk Management	Managing outside providers of risk services comprised of providing insurance and assisting affiliated entities in managing property and liability risks including claims, security, environmental, safety and consulting services.	Total Utility Plant Assets Ratio	Ongoing	A
Credit Administration	Providing management of credit risk for wholesale energy sales and major vendors.	Generation Ratio	Ongoing	A
Energy Marketing Trading Controls	Performing daily, weekly, monthly and ad hoc reporting on the trading portfolios related to total exposure, trading limits, and mark-to-market calculations. Other activities include performing an independent valuation and validation of significant transactions, valuation algorithms, ensuring trading system security and testing trading system enhancements.	Generation Ratio	Ongoing	A

Service	Description	Assignment Method	Frequency	Primary Affiliate
Energy Marketing Contract Administration	Negotiating contracts with counterparties, administrating contracts, and maintaining contracts within the trading systems. Additional activities include assisting various departments with contract disputes and preparing and validating confirmations	Generation Ratio	Ongoing	A
Supply Chain and Logistics Services – Includes Procurement and Major Contracts; Strategic Sourcing; Materials Logistics; Sourcing Support; Accounts Payable; and, Supplier Diversity Services		Non-Fuel Material and Services Expenditures Ratio; Number of Transactions Ratio; Departmental Charge Ratio		
Procurement and Major Contracts	Providing for and administering major contract negotiations, requests for quotes, supplier relations and order placement services.	Non-Fuel Material and Services Expenditures Ratio	Ongoing	A
Strategic Sourcing	Providing strategic sourcing services such as maintaining and analyzing the supplier base and performing supplier selection activities including contract negotiations and ongoing compliance.	Non-Fuel Material and Services Expenditures Ratio	Ongoing	A
Materials Logistics	Providing order management, materials handling and logistics, and inventory management services.	Non-Fuel Material and Services Expenditures Ratio	Ongoing	R

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Service	Description	Assignment Method	Frequency	Primary Affiliate
Sourcing Support	Providing order management and general field support services for system maintenance, developing and monitoring of key performance metrics, supplying day to day variance and reconciliation reporting services, and performing supplier certification services.	Non-Fuel Material and Services Expenditures Ratio	Ongoing	R
Accounts Payable	Processing payments for purchase orders, check requests, employees' expense reimbursements, etc., and providing ad-hoc research and analysis services.	Number of Transactions Ratio	Ongoing	A
Supplier Diversity	Identifying qualified minority and women owned businesses that are able to participate in competitive bidding opportunities, perform on-going work and ultimately become key suppliers to LKE and subsidiaries.	Non-Fuel Material and Services Expenditures Ratio	Ongoing	A
IT Services – Includes IT Corporate Functions; IT Security and Administrative; IT Enhancements; IT Applications; IT Client; and, IT Platform Services		Number of Employees Ratio; Departmental Charge Ratio		
IT Corporate Functions	Providing services associated with corporate functions, not specific companies or work groups, and include groups such as IT Project Management and Controls, IT Training, and IT Strategy and Planning. This function is where corporate standards and programs are developed and administered.	Number of Employees Ratio	Ongoing	A
IT Security and Administrative	Providing services associated with non-project management, security and administrative support. This function includes developing and administering security	Number of Employees Ratio	Ongoing	A

Service	Description	Assignment Method	Frequency	Primary Affiliate
	policies and procedures.			
IT Enhancements	Providing discretionary, project-based work done in IT. These projects create new client value or add business value to existing products/services.	Number of Employees Ratio	Frequent	A
IT Applications	Providing services associated with each of the existing applications that IT provides to the business, for example Oracle Applications, PeopleSoft, etc. These services include costs incurred related to application license fees and application support costs.	Number of Employees Ratio	Ongoing	A
IT Client	Providing services associated with existing end user tools and related productivity software that the users can identify and interact with, such as a personal computer, telephone, email and file and print services.	Number of Employees Ratio	Ongoing	A
IT Platform	Providing services associated with shared computing platforms, databases, network and IT Service Desk.	Number of Employees Ratio	Ongoing	A
Compliance, Legal, and Environmental Affairs Services – Includes Legal; Compliance; and, Environmental Affairs Services		Departmental Charge Ratio; Number of Employees Ratio; Electric Peak Load Ratio		
Legal	Providing various legal services for all affiliated entities including in-house counsel and staff assistance in the areas of, among others, corporate and securities law, employment law, energy, public utility and regulatory law, contract law, litigation, environmental law and	Departmental Charge Ratio	Ongoing	A

Service	Description	Assignment Method	Frequency	Primary Affiliate
	intellectual property law, evaluating legal claims and managing legal fees for outside counsel.			
Compliance	Providing various compliance services for all affiliated entities including compliance assessment and risk management, code of conduct, anti-fraud, ethics and helpline management, etc.	Number of Employees Ratio	Ongoing	A
Environmental Affairs	Providing management services related to performing analyses, monitoring and advocacy of regulatory and legislative environmental matters including securing of permits and approvals, providing environmental technical expertise, and representing the Company in industry groups and before regulatory agencies dealing with environmental issues.	Electric Peak Load Ratio	Frequent	R
Regulatory Affairs and Government Affairs Management Services – Includes Regulatory Affairs; and, Government Affairs Management Services		Revenue Ratio; Departmental Charge Ratio		
Regulatory Affairs	Providing management services for compliance with all laws, regulations and other policy requirements, including regulatory filings, expert testimony, tariff administration and compliance, pricing support, and development and monitoring of positions regarding ongoing regulatory matters.	Revenue Ratio	Ongoing	R
Government Affairs Management	Maintaining relationships with government policy makers and conducting lobbying activities.	Departmental Charge Ratio	Frequent	A

LG&E and KU Services Company
Cost Allocation Manual

Service	Description	Assignment Method	Frequency	Primary Affiliate
Corporate Communications and Public Affairs Management Services – Includes Internal Communications; External and Brand Communications; and, Public Affairs Management Services		Number of Employees Ratio; Departmental Charge Ratio		
Internal Communications	Providing employee and customer-directed communications including company intranet/internet, employee newsletters, announcements, speeches, graphic design, presentations and customer newsletters and bill inserts.	Number of Employees Ratio	Frequent	A
External and Brand Communications	Providing all administrative and management support for external communication services, brand image management and corporate events.	Departmental Charge Ratio	Frequent	A
Public Affairs Management	Providing community relations functions, communicating public information to local organizations and providing oversight for communications to employees.	Departmental Charge Ratio	Frequent	A
Operating Services – Includes Facilities and Buildings; Security; Production Mail; Document; and, Right-of-Way Services		Departmental Charge Ratio; Number of Customers Ratio; Number of Employees Ratio		
Facilities and Buildings	Providing building and grounds maintenance including coordination of office furniture and equipment purchases/leases, space utilization and layout, and building code and fire protection services.	Departmental Charge Ratio	Ongoing	A
Security	Providing security personnel, security and monitoring devices for all affiliated entities.	Departmental Charge Ratio	Ongoing	A

Service	Description	Assignment Method	Frequency	Primary Affiliate
Production Mail	Providing production mail services for customer bills and other large customer mailings.	Number of Customers Ratio	Ongoing	R
Document	Providing document printing, reproduction services including mail delivery, scanning, off-site storage and document service desk support.	Number of Employees Ratio	Ongoing	A
Right-of-Way	Obtaining and retaining easements or fee simple property for placement and operation of company and affiliate equipment as well as managing real estate assets and maintaining real estate records.	Number of Customers Ratio	Ongoing	R
Transportation Services – Includes Transportation Services		Transportation Resource Management System Chargeback Ratio; Departmental Charge Ratio		
Transportation	Providing and operating transportation fleet for all affiliated companies including developing fleet policy, administering regulatory compliance programs, managing repair and maintenance of vehicles and procuring vehicles	Transportation Resource Management System Chargeback Ratio	Ongoing	A
HR Services – Includes HR Compensation; HR Benefits; HR Employee Diversity HR Health and Safety; HR Organization Development and Training; HR; Technical and Safety Training; and, Industrial Relations Management Services		Number of Employees Ratio; Departmental Charge Ratio		
HR Compensation	Providing services relating to the establishment and oversight of compensation policies for employees.	Number of Employees Ratio	Frequent	A

LG&E and KU Services Company
Cost Allocation Manual

Service	Description	Assignment Method	Frequency	Primary Affiliate
HR Benefits	Providing services relating to the establishment and oversight of benefits plans for employees, retirees and survivors. This also includes vendor management, compliance with various laws and regulations, administrative vendor billings, and maintenance of all personnel records.	Number of Employees Ratio	Frequent	A
HR Employee Diversity	Providing initiatives and programs designed to support the company's diversity strategy, with an emphasis on creating, designing and implementing the strategies and programs to achieve the company's diversity vision. This includes fostering and managing the internal and external relationships necessary to driving initiatives within the company and wider community customer base.	Departmental Charge Ratio	Frequent	A
HR Health and Safety	Providing services relating to the establishment and oversight of health and safety policies for employees.	Number of Employees Ratio	Frequent	A
HR Organization Development and Training	Providing initiatives and programs designed to support personal and professional growth, with an emphasis on employee and leadership training, individual and career development, performance management, coaching, mentoring, succession planning, employee engagement, and expatriate support.	Number of Employees Ratio	Frequent	A
HR	Providing services relating to operational and strategic human resources management.	Number of Employees Ratio	Frequent	A

LG&E and KU Services Company
Cost Allocation Manual

Service	Description	Assignment Method	Frequency	Primary Affiliate
Technical and Safety Training	Providing training services on technical and safety matters primarily for the Energy Delivery and Energy Services businesses.	Number of Employees Ratio	Frequent	R
Industrial Relations Management	Providing communication and oversight for union matters, negotiation of union contracts, and union dispute resolution services.	Number of Employees Ratio	Frequent	R
Executive Management Services – Includes Executive Management Services		Departmental Charge Ratio		
Executive Management	Providing executive leadership to the corporation, the cost of which is comprised of the compensation and benefits of the corporate officers and executive assistants.	Departmental Charge Ratio	Ongoing	A

V. COST ASSIGNMENT METHODS

OVERVIEW

The costs of services provided by Servco will be directly assigned, distributed or allocated by activity, project, program, work order or other appropriate basis. The primary basis for charges to affiliates is the direct charge method (see section VI for time reporting procedures). The methodologies listed below pertain to all other costs which are not directly assigned but which make up the fully distributed cost of providing the service.

> ***Directly Assignable* –** Expenses incurred for activities and services exclusively for the benefit of one affiliate. In many respects, these types of expenses relate to non-Servco employees that perform dedicated services to one affiliate, although Servco employees also directly report where feasible.
>
> ***Directly Attributable* –** Expenses incurred for activities and services that benefit more than one affiliate and which can be apportioned using direct measures of costs causation.
>
> ***Indirectly Attributable* –** Expenses incurred for activities and services that benefit more than one affiliate and which can be apportioned using general measures of cost causation.
>
> ***Unattributable* –** Expenses or portions thereof incurred for activities and services that have been determined as not appropriate for apportionment. The unattributable portions of these costs relate primarily to activities such as corporate diversification, political or philanthropic endeavors and, as such, may be charged, in whole or in part, to LKC.

ASSIGNMENT METHODS

Servco will allocate the costs of service among the affiliated companies using one of several methods that most accurately distributes the costs. The method of cost allocation varies based on the department rendering the service. Any of the methods may be adjusted for any known and reasonably quantifiable events, or at such time as may be required due to significant changes in the business, but are generally determined annually. The assignment methods used by Servco are as follows:

Contract Ratio – Based on the sum of the physical amount (i.e. tons of coal, cubic feet of natural gas) of the contract for both coal and natural gas for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Departmental Charge Ratio – A specific Servco department ratio based upon various factors. The departmental charge ratio typically applies to indirectly attributable costs such as departmental administrative, support, and/or material and supply costs that benefit more than one affiliate and that require allocation using general measures of cost causation. Methods for assignment are department-specific depending on the type of service being performed and are documented and monitored by the Budget Coordinators for each department. The numerator and denominator vary by department. The ratio is based upon various factors such as labor hours, labor dollars, departmental or entity headcount, capital expenditures, operations & maintenance costs, retail energy sales, charitable contributions, generating plant sites, average allocation of direct reports, net book value of utility plant, total line of business assets, electric capital expenditures, substation assets and transformer assets. These ratios are calculated on an annual basis. Any changes in these ratios will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in any of these ratios from that used in the prior year.

Electric Peak Load Ratio – Based on the sum of the monthly electric maximum system demands for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company and the denominator of which is for all operating companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Energy Marketing Ratio – Based on the absolute value of megawatt hours purchased and sold for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affiliate and the denominator of which is for all operating companies and affected affiliate companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Generation Ratio – Based on the annual forecast of megawatt hours, the numerator of which is for an operating company or an affiliate and the denominator of which is for all operating companies and affected affiliate companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Non-Fuel Material and Services Expenditures – Based on non-fuel material and services expenditures, net of reimbursements, for the immediately preceding twelve consecutive calendar months. The numerator is equal to such expenditures for a specific entity and/or line-of-business as appropriate and the denominator is equal to such expenditures for all applicable entities. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Customers Ratio – Based on the number of retail electric and/or gas customers. This ratio will be determined based on the actual number of customers at the end of the previous calendar year. In some cases, the ratio may be calculated based on the type of customer class being served (i.e. Residential, Commercial or Industrial). The numerator is the total number of each Company's retail customers. The denominator is the total number of retail customers for both LG&E and KU. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Employees Ratio – Based on the number of employees benefiting from the performance of a service. This ratio will be determined based on actual counts of applicable employees at the end of the previous calendar year. A two-step assignment methodology is utilized to properly allocate Servco employee costs to the proper legal entity. The numerator for the first step of this ratio is the total number of employees for each specific company, and the denominator is the total number of employees for all companies in which an allocator is assigned (i.e. LG&E, KU and Servco). For the second step, the ratio of Servco to total employees will then be allocated to the other companies (LG&E, KU and LKC) based on each company's ratio of labor dollars to total labor dollars. (LKC has no employees, but non-utility related labor is charged to it.) This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Meters Ratio – Based on the number or types of meters being utilized by all levels of customer classes within the system for the immediately preceding twelve consecutive calendar months. The numerator is equal to the number of meters for each utility and the denominator is equal to the total meters for KU and LG&E. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Transactions Ratio – Based on the sum of transactions occurring in the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies. For example, services pertaining to Materials Logistics would define the transaction as the number of items ordered, picked and disbursed out of the warehouse. Services pertaining to Accounts Payable would define the transaction as the number of invoices processed. The Controller's organization is responsible for maintaining and monitoring specific product/service methodology documentation for actual transactions related to Servco billings. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Project Ratio – Based on the total costs for any departmental or affiliate project for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Retail Revenue Ratio – Based on utility revenues, excluding energy marketing revenues, for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affiliate and the denominator of which is for all operating companies and affected affiliate companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Revenue Ratio – Based on the sum of the revenue for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Revenue, Total Assets and Number of Employees Ratio – Based on an average of the revenue, total assets and number of employees ratios. This ratio is independently calculated for LG&E and KU. The numerator is the sum of Revenue Ratio, Total Assets Ratio and Number of Employees Ratio for the specific company. The denominator is three – the number of ratios being averaged. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Total Assets Ratio – Based on the total assets at year end for the preceding year. In the event of joint ownership of a specific asset, asset ownership percentages are utilized to assign costs. The numerator is the total assets for each specific company at the end of the preceding year. The denominator is the sum of total assets for each company in which an allocator is assigned (LG&E, KU and LKC). This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Total Utility Plant Assets Ratio – Based on the total utility plant assets at year end for the preceding year, the numerator of which is for an operating company or affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies. In the event of joint ownership of a specific asset, ownership percentages are utilized to assign costs. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Transportation Resource Management System Chargeback Ratio – Based on the costs associated with providing and operating transportation fleet for all affiliated companies including developing fleet policy, administering regulatory compliance programs, managing repair and maintenance of vehicles and procuring vehicles. Such rates are applied based on the specific equipment employment and the measured usage of services by the various company entities. This ratio is calculated monthly based on the actual transportation charges from the previous month. The numerator is the department labor charged to a specific company. The denominator is the total labor costs for the specific department. The ratio is then multiplied by the total transportation costs to determine the amount charged to each company.

Utility Ownership Percentages – Based on the contractual ownership percentages of jointly-owned generating units. This ratio is updated as a result of a new jointly-owned generating unit, and is based on the total forecasted energy needs. The numerator is the specific company's forecasted incremental capacity and/or energy needs. The denominator is the total incremental capacity and/or energy needs of all companies.

VI. TIME DISTRIBUTION, BILLING AND ASSET TRANSFER POLICIES

OVERVIEW

Servco utilizes Oracle or other financial systems in which project/task combinations are set up to equate to services. In some cases, departments have set up many projects/tasks that map to services. In many cases, there is a one to one relationship between the project/task and the service. The Oracle system also automatically captures the home company (providing the service) and the charge company (receiving the service). Regardless of the method of reporting, charges related to specific services reside on the company receiving the service and therefore can be identified for billing purposes as well as for preparation of Servco financial statements. This ensures that:

1. Separation of costs between regulated and non-regulated affiliates will be maintained
2. Intercompany transactions and related billings are structured so that non-regulated activities are not subsidized by regulated affiliates
3. Adequate audit trails exist on the books and records

BILLING POLICIES

Billings for transactions between Servco and affiliates are issued on a timely basis with documentation sufficient to provide the receiving party with enough detail to understand the nature of the billing, the relevant components, and other information as required by affiliates. Financial settlements for transactions are made within 30 days. Interest charges, which are based on market rates for similar maturities of similarly rated entities as of the date of the loan, may apply.

ASSET TRANSFERS

Unless otherwise permitted by regulatory authority or exception, (i) transfers or sales of assets from regulated affiliates to non-regulated affiliates will be priced at the greater of cost or fair market value; (ii) transfers or sales of assets from non-regulated affiliates to regulated affiliates will be priced at the lower of cost or fair market value and (iii) transfers of assets between regulated affiliates shall be priced at no more than cost less depreciation. Settlement of liabilities will be treated in the same manner.

TIME DISTRIBUTION

Servco has three methods of distribution to record employee salaries and wages while providing services for the affiliated entities: Positive time reporting, allocation time reporting and exception time reporting. Each department's job activities will dictate the time reporting method used.

Positive Time Reporting

Positive time reporting or direct time reporting requires all employees in a department to track all chargeable hours every day. Time may be charged to the nearest quarter hour.

Departments that have positive time reporting have labor-based activities that are easily trackable given the project/task code combinations noted above. All employees are given appropriate project numbers that are associated with the service that is being provided. The proper coding for direct assignment of costs is on various source documents, including the Virtual Online Time System (VOLTS) and disbursement requests. Each department or project manager is responsible for ensuring employees charge the appropriate charge codes for the services performed. This form of time reporting is documented in the VOLTS, which upon completion, is approved by the employees' immediate supervisor.

Allocation Time Reporting

Allocation time reporting allows for certain departments to set up a predefined allocation percentage to affiliated company project/tasks. This is typically the case when the department is transaction-based, therefore, performing routine, similar tasks benefiting multiple affiliates. Each department will use its ratio (see ratio assignment listing in section V) that was assigned by its Budget Coordinator to allocate the appropriate time to individual charge numbers that are associated to that department's services. Unless otherwise permitted by regulatory authority or exception, the selection of ratios and the calculation of allocation percentages should be derived from or bear relationship to an empirical analysis of a prior representative period. These allocation percentages are reviewed on an annual basis to update to actual allocation percentages when needed.

Exception Time Reporting

If an employee was working on a completely new project that had not been defined within the monthly or annual allocation process, then the employee would be given the new allocation with project/task code, update his/her time allocation accordingly and get his/her manager's approval. If an allocation from a previous pay period needs to be adjusted then that correction can be entered into the VOLTS by using the "in and out" function.

Kentucky Utilities Company
Case No. 2012-00221
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(6)(u)
Sponsoring Witness: Robert M. Conroy

Description of Filing Requirement:

If the utility provides gas, electric or water utility service and has annual gross revenues greater than $5,000,000, a cost of service study based on a methodology generally accepted within the industry and based on current and reliable data from a single time period.

Response:

Please refer to the testimony and exhibits of Robert M. Conroy.

Kentucky Utilities Company
Case No. 2012-00221
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(6)(v)
Sponsoring Witness: Lonnie E. Bellar

Description of Filing Requirement:

Local exchange carriers with fewer than 50,000 access lines shall not be required to file cost of service studies, except as specifically directed by the commission. Local exchange carriers with more than 50,000 access lines shall file:

1. *A jurisdictional separations study consistent with Part 36 of the Federal Communications Commission's rules and regulations; and*

2. *Service specific cost studies to support the pricing of all services that generate annual revenue greater than $1,000,000, except local exchange access:*

    a. *Based on current and reliable data from a single time period; and*

    b. *Using generally recognized fully allocated, embedded, or incremental cost principles.*

Response:

Not applicable to KU’s Application.

Kentucky Utilities Company
Case No. 2012-00221
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(a)
Sponsoring Witness: Valerie L. Scott

Description of Filing Requirement:

Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:

(a) A detailed income statement and balance sheet reflecting the impact of all proposed adjustments;

Response:

See attached.

Kentucky Utilities Company
Income Statement
12 Months Ending March 31, 2012

		Jurisdictional Electric		Adjustments Inc(Dec)	Adjusted
1	**OPERATING REVENUES**				
2	Total Sales to Ultimate Consumers	$ 1,291,701,071			
3	Sales for Resale	28,434,599			
4	Late Payment Charges	6,910,624			
5	Rent from Electric Property	2,153,990			
6	Miscellaneous Service Revenue	2,206,637			
7	Other Electric Revenues	10,669,999			
8	Total Operating Revenue	1,342,076,920	(1)	$ (54,380,384)	$ 1,287,696,536
9					
10	**OPERATING EXPENSES**				
11	Fuel	448,373,620	(2)	(15,399,845)	432,973,775
12	Power Purchased	90,060,701	(3)	-	90,060,701
13	Operating and Maintenance	320,353,661	(4)	(33,111,998)	287,241,663
14	Depreciation and Amortization	167,700,749	(5)	653,964	168,354,713
15	Regulatory Credits	(5,207,773)			(5,207,773)
16	Taxes Other Than Income Taxes	25,846,050	(6)	83,693	25,929,743
17	Income Taxes	89,659,334	(7)	(3,049,765)	86,609,569
18	Accretion Expense	2,542,421			2,542,421
19	(Gains) from Disposition of Allowances	(767)			(767)
20	Total Utility Operating Expenses	1,139,327,996		(50,823,951)	1,088,504,045
21	Net Utility Operating Income	202,748,924		(3,556,433)	199,192,491
22					
23	Net Other Income and Deductions				
24					
25	Net Interest Charges				
26					
27	Net Income	202,748,924		(3,556,433)	199,192,491
28					
29	Net Income Available for Common	$ 202,748,924	(8)	$ (3,556,433)	$ 199,192,491

Net other income and deductions are not assigned to Kentucky jurisdiction.

Kentucky Utilities Company
Pro-forma Balance Sheet

		Jurisdictional 3/31/2012		Pro-forma Adjustments	Adjusted Balance
1	**ASSETS**				
2	**UTILITY PLANT**				
3	Utility Plant	$ 5,653,048,566	(1)	$ (182,166,687)	$ 5,470,881,879
4	Construction Work in Progress	299,563,000			299,563,000
5	Total Utility Plant	5,952,611,566		(182,166,687)	5,770,444,879
6	Less: Accumulated Provision for Depreciation	2,091,528,460	(2)	595,157	2,092,123,617
7	Net Utility Plant	3,861,083,106		(182,761,844)	3,678,321,262
8					
9	**OTHER PROPERTY AND INVESTMENTS**				
10	Nonutility Property-Less Reserve	-			-
11	Investment in Subsidiary Companies	-	(3)	-	-
12	Other Investments	-	(4)	-	-
13	Special Funds	-			-
14	Total Other Property and Investments	-		-	-
15					
16	**CURRENT AND ACCRUED ASSETS**				
17	Cash	23,367,654			23,367,654
18	Special Deposits	-			-
19	Working Funds	33,726			33,726
20	Temporary Cash Investments	16,674,188			16,674,188
21	Customer Accounts Receivable	61,858,828	(5)	(45,941,726)	15,917,102
22	Other Accounts Receivable	10,246,902			10,246,902
23	Less: Accum Prov. for Uncollectable Accts-Credit	1,909,427			1,909,427
24	Accounts Receivable from Associated Companies	2,878,965			2,878,965
25	Fuel	75,044,815			75,044,815
26	Plant Materials and Operating Supplies	29,704,618			29,704,618
27	Allowances	359,606	(6)	(359,401)	205
28	Stores Expense Undistributed	8,846,550			8,846,550
29	Prepayments	5,271,528	(7)	220,103	5,491,631
30	Interest and Dividends Receivable	8,744			8,744
31	Accrued Utility Revenues	56,527,000			56,527,000
32	Miscellaneous Current Assets	776			776
33	Total Current and Accrued Assets	288,914,473		(46,081,024)	242,833,449
34					
35	**DEFERRED DEBITS**				
36	Unamortized Debt Expense	18,375,925			18,375,925
37	Other Regulatory Assets	226,679,655	(8)	1,054,592	227,734,247
38	Preliminary Survey and Inventory	3,614,622			3,614,622
39	Clearing Accounts	-			-
40	Miscellaneous Deferred Debits	36,167,181			36,167,181
41	Unamortized Loss on Bonds	10,174,601			10,174,601
42	Accumulated Deferred Income Taxes	74,623,809			74,623,809
43	Total Deferred Debits	369,635,793		1,054,592	370,690,385
44					
45	Total Assets	$ 4,519,633,372	(9)	$ (227,788,276)	$ 4,291,845,096

Kentucky Utilities Company
Pro-forma Balance Sheet

		Jurisdictional 3/31/2012		Pro-forma Adjustments		Adjusted Balance
46	**LIABILITIES & PROPRIETARY CAPITAL**					
47	**PROPRIETARY CAPITAL**					
48	Common Stock Issued	$ 269,720,870				$ 269,720,870
49	Paid in Capital	276,476,677				276,476,677
50	(Less) Capital Stock Expense	281,230				281,230
51	Retained Earnings	1,318,249,443	(10)	$ (97,267,139)		1,220,982,304
52	Unappropriated Undistributed Subsidiary Earnings	-				-
53	Total Proprietary Capital	1,864,165,760		(97,267,139)	(a)	1,766,898,621
54						
55	**LONG-TERM DEBT**					
56	Bonds	1,620,022,939	(11)	(85,030,505)		1,534,992,434
57	Long-Term Debt To Associated Companies	-	(12)	-		-
58	Unamortized Discount on Long-Term Debt	(8,778,605)				(8,778,605)
59	Total-Long Term	1,611,244,334		(85,030,505)		1,526,213,829
60						
61	**OTHER NON-CURRENT LIABILITIES**					
62	Accumulated Provision for Injuries and Damages	2,339,537				2,339,537
63	Accumulated Provision for Pensions and Benefits	119,820,870				119,820,870
64	Total Other Non-Current Liabilities	122,160,407		-		122,160,407
65						
66	**CURRENT AND ACCRUED LIABILITIES**					
67	Accounts Payable	79,733,267	(13)	(43,426,845)		36,306,422
68	Notes Payable to Associated Companies	-	(14)	-		-
69	Accounts Payable to Associated Companies	-	(15)	-		-
70	Customer Deposits	22,530,992				22,530,992
71	Taxes Accrued	13,500,221	(16)	(2,966,072)		10,534,149
72	Interest Accrued	22,783,370				22,783,370
73	Tax Collections Payable	3,341,899				3,341,899
74	Miscellaneous Current and Accrued Liabilities	15,424,908				15,424,908
75	Total Current and Accrued Liabilities	157,314,657		(46,392,917)		110,921,740
76						
77	**DEFERRED CREDITS**					
78	Customer Advances for Construction	2,936,189				2,936,189
79	Accumulated Deferred Investment Tax Credits	86,299,725				86,299,725
80	Other Deferred Credits	10,869,046				10,869,046
81	Other Regulatory Liabilities	94,973,993	(17)	5,975,493		100,949,486
82	Asset Retirement Obligation	54,156,512				54,156,512
83	Miscellaneous Long-Term Liabilities	-				-
84	Accumulated Deferred Income Taxes	509,441,898	(18)	(5,073,208)		504,368,690
85	Total Deferred Credits	758,677,363		902,285		759,579,648
86						
87	Jurisdictional Adjustment to Balance	6,070,851		-		6,070,851
88						
89	Total Liabilities and Stockholders Equity	$ 4,519,633,372	(19)	$ (227,788,276)		$ 4,291,845,096

Reconciliation of Capitalization

Adjusted Jurisdictionalized Capitalization per Blake Exhibit 2	$ 3,294,685,544	
Net Operating Income Pro-forma Impact per Blake Exhibit 1	(3,556,433)	
Capitalization Allocation Diference	1,983,339	(a)
Adjusted Equity & Long-Term Debt per line 53 & 59 above	$ 3,293,112,450	

(a) Difference due to detailed factors used in the Jurisdictional Separation Study versus the overall jurisdictional factor of 87.52%.

Kentucky Utilities
Pro-Forma Income Statement
Summary of Adjustments

Blake Exhibit 1, Reference Schedule	**Description**	**Witness**	**(1) Operating Revenue**	**(2) Fuel**	**(3) Power Purchased**	**(4) Operation and Maintenance**	**(5) Depreciation and Amortization**	**(6) Taxes Other Than Income Taxes**	**(7) Income Taxes**	**(8) Income Statement**
1.00	Adjustment to eliminate unbilled revenues	Bellar	$ 5,107,000							$ 5,107,000
1.01	To adjust mismatch in fuel cost recovery	Conroy	(9,156,061)	$ (12,785,149)						3,629,088
1.02	To adjust base rates and FAC to reflect a full year of the FAC roll-in	Conroy	2,885,839							2,885,839
1.03	Adjustment to relect changes to FAC calculations	Conroy	(2,638,801)	(2,614,696)						(24,105)
1.04	Adjustment to eliminate Environmental Surcharge revenues and expenses	Conroy	(14,710,734)			$ (9,148,577)	$ (58,882)	$ (101,928)		(5,401,347)
1.05	Off-system sales revenue adjustment for the ECR calculation	Conroy	(296,088)							(296,088)
1.06	To eliminate DSM revenue and expenses	Scott	(15,401,724)			(13,589,518)				(1,812,206)
1.07	To eliminate rate mechanisms revenue accruals	Scott	(8,438,658)							(8,438,658)
1.08	To eliminate net brokered and financial swap revenues and expenses	Scott	294,881			(6,018)				300,899
1.09	To adjust Off-system sales margins	Bellar	(292,995)							(292,995)
1.10	Adjustment to annualize year-end customers	Conroy	(3,407,542)			(1,909,033)				(1,498,509)
1.11	To adjust for customer rate switching and bill adjustments	Conroy	(8,348,788)							(8,348,788)
1.12	Adjustment to reflect annualized depreciation expenses	Charnas					712,846			(712,846)
1.13	Adjustment to reflect increases in labor and labor related costs	Scott				2,697,833		185,621		(2,883,454)
1.14	Adjustment for pension, post retirement, and post employment costs	Arbough				(4,067,870)				4,067,870
1.15	Adjustment to reflect normalized storm damage expense	Scott				(834,318)				834,318
1.16	Adjustment for injuries and damages FERC account 925	Scott				(1,233,028)				1,233,028
1.17	Adjustment to eliminate advertising expenses pursuant to Commission Rule 807 KAR 5:016	Scott				(808,453)				808,453
1.18	Adjustment to remove out-of-period Items	Scott	23,287			(475,875)				499,162
1.19	Adjustment to reflect increase in property insurance expense	Arbough				1,079,050				(1,079,050)
1.20	Adjustment for transfer of Independent Transmission Operator functions	Bellar				(3,328,434)				3,328,434
1.21	Adjustment for MISO exit regulatory asset/liability	Scott				(1,509,951)				1,509,951
1.22	Adjustment for General Management audit regulatory asset	Bellar				47,507				(47,507)
1.23	Adjustment for rate case expense amortization	Bellar				(25,313)				25,313
1.24 - 1.28	These adjustments left intentionally blank	Blake								-
1.29	Federal and state income taxes corresponding to base revenue and expense adjustments and above adjustments -	Blake							$ (2,427,596)	2,427,596
1.30	Federal and state income taxes corresponding to annualization and adjustment of year-end interest expense	Blake							145,218	(145,218)
1.31	Prior income tax true-ups and adjustments	Blake							(436,228)	436,228
1.32	Adjustment for tax basis depreciation reduction	Blake							(331,159)	331,159
1.33	This adjustment left intentionally blank	Blake								-
	Subtotal before Capitalization Adjustments		(54,380,384)	(15,399,845)	-	(33,111,998)	653,964	83,693	(3,049,765)	(3,556,433)
	Capitalization Adjustments:									
	Undistributed Subsidiary Earnings	(A)								
	Investment in EEI	(B)								
	Investments in OVEC and Other	(C)								
	Environmental Compliance Plans	(D)								
	Total Adjustments		$ (54,380,384)	$ (15,399,845)	$ -	$ (33,111,998)	$ 653,964	$ 83,693	$ (3,049,765)	$ (3,556,433)

Notes:
(A) Blake Exhibit 2
(B) Blake Exhibit 2
(C) Blake Exhibit 2
(D) Blake Exhibit 2

Kentucky Utilities
Pro-Forma Balance Sheet
Summary of Adjustments

Blake Exhibit 1, Reference Schedule	Description	Witness	(1) Utility Plant	(2) Less: Accumulated Provision for Depreciation	(3) Investment in Subsidiary Companies	(4) Other Investments	(5) Customer Accounts Receivable	(6) Allowances	(7) Prepayments	(8) Other Regulatory Assets	(9) Total Assets
1.00	Adjustment to eliminate unbilled revenues	Bellar					$ 5,107,000				$ 5,107,000
1.01	To adjust mismatch in fuel cost recovery	Conroy					(9,156,061)				(9,156,061)
1.02	To adjust base rates and FAC to reflect a full year of the FAC roll-in	Conroy					2,885,839				2,885,839
1.03	Adjustment to relect changes to FAC calculations	Conroy					(2,638,801)				(2,638,801)
1.04	Adjustment to eliminate Environmental Surcharge revenues and expenses	Conroy		$ (58,882)			(14,710,734)				(14,651,852)
1.05	Off-system sales revenue adjustment for the ECR calculation	Conroy					(296,088)				(296,088)
1.06	To eliminate DSM revenue and expenses	Scott					(15,401,724)				(15,401,724)
1.07	To eliminate rate mechanisms revenue accruals	Scott								$ (2,254,000)	(2,254,000)
1.08	To eliminate net brokered and financial swap revenues and expenses	Scott					294,881				294,881
1.09	To adjust Off-system sales margins	Bellar					(292,995)				(292,995)
1.10	Adjustment to annualize year-end customers	Conroy					(3,407,542)				(3,407,542)
1.11	To adjust for customer rate switching and bill adjustments	Conroy					(8,348,788)				(8,348,788)
1.12	Adjustment to reflect annualized depreciation expenses	Charnas		712,846							(712,846)
1.13	Adjustment to reflect increases in labor and labor related costs	Scott									-
1.14	Adjustment for pension, post retirement, and post employment costs	Arbough									-
1.15	Adjustment to reflect normalized storm damage expense	Scott									-
1.16	Adjustment for injuries and damages FERC account 925	Scott									-
1.17	Adjustment to eliminate advertising expenses pursuant to Commission Rule 807 KAR 5:016	Scott									-
1.18	Adjustment to remove out-of-period Items	Scott	$ 228,259				23,287		$ 220,103		471,649
1.19	Adjustment to reflect increase in property insurance expense	Arbough									-
1.20	Adjustment for transfer of Independent Transmission Operator functions	Bellar									-
1.21	Adjustment for MISO exit regulatory asset/liability	Scott								1,300,786	1,300,786
1.22	Adjustment for General Management audit regulatory asset	Bellar								(47,507)	(47,507)
1.23	Adjustment for rate case expense amortization	Bellar								2,055,313	2,055,313
1.24 - 1.28	These adjustments left intentionally blank	Blake									-
1.29	Federal and state income taxes corresponding to base revenue and expense adjustments and above adjustments -	Blake									-
1.30	Federal and state income taxes corresponding to annualization and adjustment of year-end interest expense	Blake									-
1.31	Prior income tax true-ups and adjustments	Blake									-
1.32	Adjustment for tax basis depreciation reduction	Blake									-
1.33	This adjustment left intentionally blank	Blake									-
	Subtotal before Capitalization Adjustments		228,259	653,964	-	-	(45,941,726)	-	220,103	1,054,592	(45,092,736)
	Capitalization Adjustments:										
	Undistributed Subsidiary Earnings	(A)									
	Investment in EEI	(B)									
	Investments in OVEC and Other	(C)									
	Environmental Compliance Plans	(D)	(182,394,946)	(58,807)				$ (359,401)			(182,695,540)
	Total Adjustments		$ (182,166,687)	$ 595,157	$ -	$ -	$ (45,941,726)	$ (359,401)	$ 220,103	$ 1,054,592	$ (227,788,276)

Notes:
(A) Blake Exhibit 2
(B) Blake Exhibit 2
(C) Blake Exhibit 2
(D) Blake Exhibit 2

Kentucky Utilities
Pro-Forma Balance Sheet
Summary of Adjustments

Blake Exhibit 1, Reference Schedule	Description	Witness	(10) Retained Earnings	(11) Bonds	(12) Long-Term Debt To Associated Companies	(13) Accounts Payable	(14) Notes Payable to Associated Companies	(15) Accounts Payable to Associated Companies	(16) Taxes Accrued	(17) Other Regulatory Liabilities	(18) Accumulated Deferred Income Taxes	(19) Total Liabilities and Stockholders Equity
1.00	Adjustment to eliminate unbilled revenues	Bellar	$ 5,107,000									$ 5,107,000
1.01	To adjust mismatch in fuel cost recovery	Conroy	3,629,088			$ (12,785,149)						(9,156,061)
1.02	To adjust base rates and FAC to reflect a full year of the FAC roll-in	Conroy	2,885,839									2,885,839
1.03	Adjustment to relect changes to FAC calculations	Conroy	(24,105)			(2,614,696)						(2,638,801)
1.04	Adjustment to eliminate Environmental Surcharge revenues and expenses	Conroy	(5,401,347)			(9,148,577)			$ (101,928)			(14,651,852)
1.05	Off-system sales revenue adjustment for the ECR calculation	Conroy	(296,088)									(296,088)
1.06	To eliminate DSM revenue and expenses	Scott	(1,812,206)			(13,589,518)						(15,401,724)
1.07	To eliminate rate mechanisms revenue accruals	Scott	(8,438,658)							$ 6,184,658		(2,254,000)
1.08	To eliminate net brokered and financial swap revenues and expenses	Scott	300,899			(6,018)						294,881
1.09	To adjust Off-system sales margins	Bellar	(292,995)									(292,995)
1.10	Adjustment to annualize year-end customers	Conroy	(1,498,509)			(1,909,033)						(3,407,542)
1.11	To adjust for customer rate switching and bill adjustments	Conroy	(8,348,788)									(8,348,788)
1.12	Adjustment to reflect annualized depreciation expenses	Charnas	(712,846)									(712,846)
1.13	Adjustment to reflect increases in labor and labor related costs	Scott	(2,883,454)			2,697,833			185,621			-
1.14	Adjustment for pension, post retirement, and post employment costs	Arbough	4,067,870			(4,067,870)						-
1.15	Adjustment to reflect normalized storm damage expense	Scott	834,318			(834,318)						-
1.16	Adjustment for injuries and damages FERC account 925	Scott	1,233,028			(1,233,028)						-
1.17	Adjustment to eliminate advertising expenses pursuant to Commission Rule 807 KAR 5:016	Scott	808,453			(808,453)						-
1.18	Adjustment to remove out-of-period Items	Scott	499,162			(27,513)						471,649
1.19	Adjustment to reflect increase in property insurance expense	Arbough	(1,079,050)			1,079,050						-
1.20	Adjustment for transfer of Independent Transmission Operator functions	Bellar	3,328,434			(3,328,434)						-
1.21	Adjustment for MISO exit regulatory asset/liability	Scott	1,509,951							(209,165)		1,300,786
1.22	Adjustment for General Management audit regulatory asset	Bellar	(47,507)									(47,507)
1.23	Adjustment for rate case expense amortization	Bellar	25,313			2,030,000						2,055,313
1.24 - 1.28	These adjustments left intentionally blank	Blake	-									-
1.29	Federal and state income taxes corresponding to base revenue and expense adjustments and above adjustments -	Blake	2,427,596						(2,427,596)			-
1.30	Federal and state income taxes corresponding to annualization and adjustment of year-end interest expense	Blake	(145,218)						145,218			-
1.31	Prior income tax true-ups and adjustments	Blake	436,228						(436,228)			-
1.32	Adjustment for tax basis depreciation reduction	Blake	331,159						(331,159)			-
1.33	This adjustment left intentionally blank	Blake										-
	Subtotal before Capitalization Adjustments		(3,556,433)	-	-	(44,545,724)	-	-	(2,966,072)	5,975,493	-	(45,092,736)
	Capitalization Adjustments:											
	Undistributed Subsidiary Earnings	(A)	4,925,855								$ (4,925,855)	-
	Investment in EEI	(B)										
	Investments in OVEC and Other	(C)										
	Environmental Compliance Plans	(D)	(98,636,561)	$ (85,030,505)		1,118,879					(147,353)	(182,695,540)
	Total Adjustments		$ (97,267,139)	$ (85,030,505)	$ -	$ (43,426,845)	$ -	$ -	$ (2,966,072)	$ 5,975,493	$ (5,073,208)	$ (227,788,276)

Notes:
(A) Blake Exhibit 2
(B) Blake Exhibit 2
(C) Blake Exhibit 2
(D) Blake Exhibit 2

Kentucky Utilities Company
Case No. 2012-00221
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(b)
Sponsoring Witness: Shannon L. Charnas

Description of Filing Requirement:

The most recent capital construction budget containing at least the period of time as proposed for any pro forma adjustment for plant additions;

Response:

Not applicable since no pro forma adjustments for plant additions are proposed.

Kentucky Utilities Company
Case No. 2012-00221
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(c)
Sponsoring Witness: Shannon L. Charnas

Description of Filing Requirement:

For each proposed pro forma adjustment reflecting plant additions provide the following information:

1. *The starting date of the construction of each major component of plant;*

2. *The proposed in-service date;*

3. *The total estimated cost of construction at completion;*

4. *The amount contained in construction work in progress at the end of the test period;*

5. *A schedule containing a complete description of actual plant retirements and anticipated plant retirements related to the pro forma plant additions including the actual or anticipated date of retirement;*

6. *The original cost, cost of removal and salvage for each component of plant to be retired during the period of the proposed pro forma adjustment for plant additions;*

7. *An explanation of any differences in the amounts contained in the capital construction budget and the amounts of capital construction cost contained in the pro forma adjustment period; and*

8. *The impact on depreciation expense of all proposed pro forma adjustments for plant additions and retirements;*

Response:

Not applicable since no pro forma adjustments for plant additions are proposed.

Kentucky Utilities Company
Case No. 2012-00221
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(d)
Sponsoring Witness: Valerie L. Scott

Description of Filing Requirement:

The operating budget for each month of the period encompassing the pro forma adjustments.

Response:

See attached.

KU Income Statement

(US$ in millions, unless otherwise noted)

2012 Business Plan

Fiscal Year Ending December 31	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	2012P
Revenues													
Electric	152.8	139.1	133.8	121.1	126.0	140.2	152.5	155.6	134.9	127.3	129.3	153.6	1,666.3
Revenues, Total	**152.8**	**139.1**	**133.8**	**121.1**	**126.0**	**140.2**	**152.5**	**155.6**	**134.9**	**127.3**	**129.3**	**153.6**	**1,666.3**
Costs of Revenues													
Fuel and Purchased Power Expense	(65.4)	(58.9)	(55.1)	(49.3)	(50.5)	(57.5)	(64.6)	(66.6)	(53.9)	(52.5)	(51.4)	(62.7)	(688.4)
Other Utility Costs of Revenues [1]	(8.8)	(8.5)	(8.8)	(9.8)	(10.0)	(10.1)	(10.3)	(10.7)	(9.9)	(9.5)	(9.8)	(10.4)	(116.6)
Costs of Revenues, Total	**(74.2)**	**(67.4)**	**(63.9)**	**(59.1)**	**(60.6)**	**(67.5)**	**(74.9)**	**(77.2)**	**(63.8)**	**(62.1)**	**(61.2)**	**(73.1)**	**(805.0)**
Gross Margin													
Electric	78.6	71.7	69.9	62.0	65.4	72.7	77.6	78.4	71.1	65.3	68.1	80.5	861.3
Gross Margin, Total	**78.6**	**71.7**	**69.9**	**62.0**	**65.4**	**72.7**	**77.6**	**78.4**	**71.1**	**65.3**	**68.1**	**80.5**	**861.3**
Operating and Other Expenses													
Utility O&M Expenses	(25.0)	(30.2)	(33.0)	(35.8)	(32.5)	(28.5)	(27.3)	(28.8)	(27.6)	(34.0)	(26.8)	(26.4)	(355.8)
Non-Income Taxes	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(20.8)
Operating and Other Expenses, Total	**(26.7)**	**(31.9)**	**(34.7)**	**(37.5)**	**(34.2)**	**(30.3)**	**(29.1)**	**(30.6)**	**(29.3)**	**(35.8)**	**(28.5)**	**(28.2)**	**(376.7)**
Other Operating Income / (Expenses)													
Equity Income (EEI)	1.2	0.7	(0.4)	(1.2)	(1.1)	0.6	2.7	2.6	0.1	(0.0)	0.0	0.5	5.7
Other Income	(0.1)	(0.2)	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	(0.4)	(0.2)	(0.1)	(0.2)	(2.0)
Utility EBITDA, Total	**53.0**	**40.3**	**34.7**	**23.2**	**29.9**	**42.9**	**51.1**	**50.2**	**41.5**	**29.3**	**39.5**	**52.6**	**488.3**
Depreciation & Amortization													
Electric Depreciation	12.0	12.0	12.0	12.1	12.1	12.2	12.3	12.3	12.3	12.3	12.4	12.5	146.5
Gas Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation & Amortization, Total	**12.0**	**12.0**	**12.0**	**12.1**	**12.1**	**12.2**	**12.3**	**12.3**	**12.3**	**12.3**	**12.4**	**12.5**	**146.5**
EBIT	**40.9**	**28.3**	**22.7**	**11.1**	**17.8**	**30.7**	**38.8**	**37.9**	**29.2**	**17.0**	**27.1**	**40.1**	**341.8**
Interest Expense, Total	**(5.8)**	**(5.8)**	**(5.8)**	**(5.8)**	**(5.8)**	**(5.8)**	**(5.8)**	**(5.8)**	**(5.8)**	**(5.8)**	**(5.8)**	**(5.8)**	**(69.7)**
Other Non-Operating Income / (Expense)													
Utility Interest Income	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Utility Non-Operating Income / (Expense)	0.0	0.0	(0.0)	(0.0)	-	-	-	-	-	-	-	-	0.1
Profit Before Taxes	**35.3**	**22.6**	**16.9**	**5.3**	**12.1**	**24.9**	**33.0**	**32.1**	**23.4**	**11.1**	**21.3**	**34.3**	**272.4**
State and Federal Income Taxes	(13.2)	(8.5)	(6.3)	(2.0)	(4.5)	(9.3)	(12.3)	(12.0)	(8.7)	(4.2)	(8.0)	(12.8)	(101.8)
Net Income	**22.1**	**14.2**	**10.6**	**3.4**	**7.5**	**15.6**	**20.7**	**20.1**	**14.7**	**7.0**	**13.3**	**21.5**	**170.6**

(1) Includes ECR and DSM operating expenses and depreciation

Kentucky Utilities Company
Case No. 2012-00221
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(e)
Sponsoring Witness: Robert M. Conroy

Description of Filing Requirement:

The number of customers to be added to the test period-end level of customers and the related revenue requirements impact for all pro forma adjustments with complete details and supporting work papers.

Response:

Please refer to the testimony and exhibits of Robert M. Conroy.