LG&E & KU ENERGY LLC

FORM 10-Q
(Quarterly Report)

Filed 08/08/12 for the Period Ending 06/30/12

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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 June 30, 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, $0.01 par value, 580,736,054 shares outstanding at July 31, 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 July 31, 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 July 31, 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 July 31, 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 JUNE 30, 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.

Unless otherwise specified, references within this Report, individually, to PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU are references to such entities directly or to one or more of their subsidiaries, as the case may be, the financial results of which are consolidated into such Registrants in accordance with GAAP. This presentation has been applied where identification of particular subsidiaries is not material to the matter being disclosed, and to conform narrative disclosures to the presentation of financial information on a consolidated basis.

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 Brunner Island - PPL Brunner Island, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

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

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.

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.

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. In 2011, 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. In June 2012, LG&E and KU terminated the asset purchase agreement.

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.

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.

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.

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 that was terminated effective April 1, 2012.

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.

Utilization Factor - a measure reflecting the percentage of electricity actually generated by plants compared with the electricity the plants could produce at full capacity when available.

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 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 and cost of scheduled and unscheduled outages at our generating facilities;
- transmission and distribution system conditions and operating costs;
- expansion of alternative sources of electricity generation;
- 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;
- 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 or 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 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 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 June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Operating Revenues				
Utility	**$ 1,605**	$ 1,484	**$ 3,319**	$ 3,020
Unregulated retail electric and gas	**179**	181	**402**	328
Wholesale energy marketing				
Realized	**1,083**	732	**2,291**	1,770
Unrealized economic activity (Note 14)	**(458)**	(44)	**394**	13
Net energy trading margins	**10**	10	**18**	21
Energy-related businesses	**130**	126	**237**	247
Total Operating Revenues	**2,549**	2,489	**6,661**	5,399
Operating Expenses				
Operation				
Fuel	**411**	414	**835**	889
Energy purchases				
Realized	**787**	434	**1,670**	1,105
Unrealized economic activity (Note 14)	**(442)**	(109)	**149**	(127)
Other operation and maintenance	**739**	723	**1,445**	1,306
Depreciation	**271**	237	**535**	445
Taxes, other than income	**87**	75	**178**	148
Energy-related businesses	**124**	120	**226**	233
Total Operating Expenses	**1,977**	1,894	**5,038**	3,999
Operating Income	**572**	595	**1,623**	1,400
Other Income (Expense) - net	**30**	(34)	**13**	(39)
Other-Than-Temporary Impairments	**1**		**1**	1
Interest Expense	**236**	264	**466**	438
Income from Continuing Operations Before Income Taxes	**365**	297	**1,169**	922
Income Taxes	**88**	96	**347**	319
Income from Continuing Operations After Income Taxes	**277**	201	**822**	603
Income (Loss) from Discontinued Operations (net of income taxes)	**(6)**	(1)	**(6)**	2
Net Income	**271**	200	**816**	605
Net Income Attributable to Noncontrolling Interests		4	**4**	8
Net Income Attributable to PPL Corporation	**$ 271**	$ 196	**$ 812**	$ 597
Amounts Attributable to PPL Corporation:				
Income from Continuing Operations After Income Taxes	**$ 277**	$ 197	**$ 818**	$ 595
Income (Loss) from Discontinued Operations (net of income taxes)	**(6)**	(1)	**(6)**	2
Net Income	**$ 271**	$ 196	**$ 812**	$ 597
Earnings Per Share of Common Stock:				
Income from Continuing Operations After Income Taxes Available to PPL Corporation Common Shareowners:				
Basic	**$ 0.47**	$ 0.35	**$ 1.40**	$ 1.13
Diluted	**$ 0.47**	$ 0.35	**$ 1.40**	$ 1.13
Net Income Available to PPL Corporation Common Shareowners:				
Basic	**$ 0.46**	$ 0.35	**$ 1.39**	$ 1.14
Diluted	**$ 0.46**	$ 0.35	**$ 1.39**	$ 1.14

Dividends Declared Per Share of Common Stock	**$**	**0.36**	$	0.35	**$**	**0.72**	$	0.70
Weighted-Average Shares of Common Stock Outstanding (in thousands)								
Basic		**579,881**		561,652		**579,462**		522,897
Diluted		**580,593**		562,019		**580,062**		523,184

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,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Net income	**$ 271**	$ 200	**$ 816**	$ 605
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), $0, $0, $1	**(179)**	93	**(103)**	160
Available-for-sale securities, net of tax of $8, ($1), ($20), ($13)	**(7)**	1	**15**	13
Qualifying derivatives, net of tax of $7, $21, ($55), ($11)	**2**	(30)	**68**	7
Equity investees' other comprehensive income (loss), net of tax of $0, $0, $2, $0	**1**		**(3)**	(1)
Defined benefit plans:				
Net actuarial gain (loss), net of tax of $28, $0, $28, $0	**(85)**		**(85)**	
Reclassifications to net income - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of $1, $0, $3, $5	**(1)**	(1)	**(4)**	(8)
Qualifying derivatives, net of tax of $84, $55, $171, $106	**(140)**	(89)	**(262)**	(158)
Equity investees' other comprehensive (income) loss, net of tax of $0, $0, $0, $0		1		3
Defined benefit plans:				
Prior service costs, net of tax of ($2), ($1), ($3), ($3)	**2**	2	**5**	5
Net actuarial loss, net of tax of ($7), ($6), ($11), ($10)	**17**	12	**37**	23
Total other comprehensive income (loss) attributable to PPL Corporation	**(390)**	(11)	**(332)**	44
Comprehensive income (loss)	**(119)**	189	**484**	649
Comprehensive income attributable to noncontrolling interests		4	**4**	8
Comprehensive income (loss) attributable to PPL Corporation	**$ (119)**	$ 185	**$ 480**	$ 641

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, 2012	Six Months Ended June 30, 2011
Cash Flows from Operating Activities		
Net income	**$ 816**	$ 605
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**535**	446
Amortization	**88**	126
Defined benefit plans - expense	**84**	71
Deferred income taxes and investment tax credits	**364**	337
Unrealized (gains) losses on derivatives, and other hedging activities	**(209)**	(165)
Other	**25**	67
Change in current assets and current liabilities		
Accounts receivable	**21**	(36)
Accounts payable	**(126)**	(60)
Unbilled revenues	**72**	194
Prepayments	**(97)**	111
Counterparty collateral	**57**	(258)
Taxes	**29**	(63)
Accrued interest	**(87)**	(9)
Other	**(71)**	36
Other operating activities		
Defined benefit plans - funding	**(493)**	(550)
Other assets	**(16)**	(42)
Other liabilities	**(45)**	4
Net cash provided by operating activities	**947**	814
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(1,309)**	(1,003)
Proceeds from the sale of certain non-core generation facilities		381
Ironwood Acquisition, net of cash acquired	**(84)**	
Acquisition of WPD Midlands		(5,763)
Purchases of nuclear plant decommissioning trust investments	**(85)**	(107)
Proceeds from the sale of nuclear plant decommissioning trust investments	**79**	100
Proceeds from the sale of other investments	**21**	163
Net (increase) decrease in restricted cash and cash equivalents	**54**	(22)
Other investing activities	**(29)**	(48)
Net cash provided by (used in) investing activities	**(1,353)**	(6,299)
Cash Flows from Financing Activities		
Issuance of long-term debt	**575**	4,350
Issuance of common stock	**35**	2,266
Payment of common stock dividends	**(413)**	(340)
Redemption of preference stock of a subsidiary	**(250)**	
Net increase (decrease) in short-term debt	**311**	(321)
Other financing activities	**(67)**	(108)
Net cash provided by (used in) financing activities	**191**	5,847
Effect of Exchange Rates on Cash and Cash Equivalents	**(6)**	**(18)**
Net Increase (Decrease) in Cash and Cash Equivalents	**(221)**	344
Cash and Cash Equivalents at Beginning of Period	**1,202**	925
Cash and Cash Equivalents at End of Period	**$ 981**	$ 1,269

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, 2012	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	$ **981**	$ 1,202
Short-term investments		16
Restricted cash and cash equivalents	**101**	152
Accounts receivable (less reserve: 2012, $64; 2011, $54)		
Customer	**750**	736
Other	**63**	91
Unbilled revenues	**754**	830
Fuel, materials and supplies	**719**	654
Prepayments	**252**	160
Price risk management assets	**2,483**	2,548
Regulatory assets	**17**	9
Other current assets	**31**	28
Total Current Assets	**6,151**	6,426
Investments		
Nuclear plant decommissioning trust funds	**681**	640
Other investments	**68**	78
Total Investments	**749**	718
Property, Plant and Equipment		
Regulated utility plant	**23,584**	22,994
Less: accumulated depreciation - regulated utility plant	**3,813**	3,534
Regulated utility plant, net	**19,771**	19,460
Non-regulated property, plant and equipment		
Generation	**11,182**	10,514
Nuclear fuel	**524**	457
Other	**674**	637
Less: accumulated depreciation - non-regulated property, plant and equipment	**5,762**	5,676
Non-regulated property, plant and equipment, net	**6,618**	5,932
Construction work in progress	**1,880**	1,874
Property, Plant and Equipment, net (a)	**28,269**	27,266
Other Noncurrent Assets		
Regulatory assets	**1,335**	1,349
Goodwill	**4,036**	4,114
Other intangibles (a)	**909**	1,065
Price risk management assets	**1,112**	920
Other noncurrent assets	**947**	790
Total Other Noncurrent Assets	**8,339**	8,238
Total Assets	$ **43,508**	$ 42,648

(a) Both June 30, 2012 and December 31, 2011 include $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)

	June 30, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities		
Short-term debt	**$ 889**	$ 578
Long-term debt due within one year	**12**	
Accounts payable	**1,037**	1,214
Taxes	**94**	65
Interest	**201**	287
Dividends	**210**	207
Price risk management liabilities	**1,595**	1,570
Regulatory liabilities	**58**	73
Other current liabilities	**1,222**	1,261
Total Current Liabilities	**5,318**	5,255
Long-term Debt	**18,698**	17,993
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**3,638**	3,326
Investment tax credits	**305**	285
Price risk management liabilities	**1,016**	840
Accrued pension obligations	**1,093**	1,313
Asset retirement obligations	**497**	484
Regulatory liabilities	**1,003**	1,010
Other deferred credits and noncurrent liabilities	**960**	1,046
Total Deferred Credits and Other Noncurrent Liabilities	**8,512**	8,304
Commitments and Contingent Liabilities (Notes 6 and 10)		
Equity		
PPL Corporation Shareowners' Common Equity		
Common stock - $0.01 par value (a)	**6**	6
Additional paid-in capital	**6,886**	6,813
Earnings reinvested	**5,190**	4,797
Accumulated other comprehensive loss	**(1,120)**	(788)
Total PPL Corporation Shareowners' Common Equity	**10,962**	10,828
Noncontrolling Interests	**18**	268
Total Equity	**10,980**	11,096
Total Liabilities and Equity	**$ 43,508**	$ 42,648

(a) 780,000 shares authorized; 580,213 and 578,405 shares issued and outstanding at June 30, 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**
March 31, 2012	579,520	$ 6	$ 6,862	$ 5,129	$ (730)	$ 268	$ 11,535
Common stock issued (b)	693		18				18
Stock-based compensation (c)			6				6
Net income				271			271
Dividends, dividend equivalents, redemptions and distributions (e)				(210)		(250)	(460)
Other comprehensive income (loss)					(390)		(390)
June 30, 2012	580,213	$ 6	$ 6,886	$ 5,190	$ (1,120)	$ 18	$ 10,980
December 31, 2011	578,405	$ 6	$ 6,813	$ 4,797	$ (788)	$ 268	$ 11,096
Common stock issued (b)	1,808		50				50
Stock-based compensation (c)			23				23
Net income				812		4	816
Dividends, dividend equivalents, redemptions and distributions (e)				(419)		(254)	(673)
Other comprehensive income (loss)					(332)		(332)
June 30, 2012	580,213	$ 6	$ 6,886	$ 5,190	$ (1,120)	$ 18	$ 10,980
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 (d)			(141)				(141)
Stock-based compensation (c)			5				5
Net income				196		4	200
Dividends, dividend equivalents and distributions (e)				(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 (d)			(141)				(141)
Stock-based compensation (c)			1				1
Net income				597		8	605
Dividends, dividend equivalents and distributions (e)				(373)		(8)	(381)
Other comprehensive income (loss)					44		44
June 30, 2011	577,265	$ 6	$ 6,774	$ 4,306	$ (435)	$ 268	$ 10,919

(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. The 2011 periods include the April issuance of 92 million shares of common stock.
(c) The three and six months ended June 30, 2012 include $6 million and $35 million and the three and six months ended June 30, 2011 include $5 million and $22 million of stock-based compensation expense related to new and existing unvested equity awards. The six months ended June 30, 2012 and 2011 include $(12) million and $(21) 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) The 2011 periods include $123 million for the 2011 Purchase Contracts and $18 million of related fees and expenses, net of tax.
(e) "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. In June 2012, PPL Electric redeemed all of its outstanding preference stock at par value, $250 million in the aggregate. 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
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Operating Revenues				
Wholesale energy marketing				
Realized	**$ 1,083**	$ 732	**$ 2,291**	$ 1,770
Unrealized economic activity (Note 14)	**(458)**	(44)	**394**	13
Wholesale energy marketing to affiliate	**17**	4	**38**	10
Unregulated retail electric and gas	**180**	181	**404**	328
Net energy trading margins	**10**	10	**18**	21
Energy-related businesses	**112**	114	**208**	224
Total Operating Revenues	**944**	997	**3,353**	2,366
Operating Expenses				
Operation				
Fuel	**196**	208	**407**	468
Energy purchases				
Realized	**635**	226	**1,294**	540
Unrealized economic activity (Note 14)	**(442)**	(109)	**149**	(127)
Energy purchases from affiliate		1	**1**	2
Other operation and maintenance	**294**	288	**549**	533
Depreciation	**69**	60	**133**	119
Taxes, other than income	**17**	16	**35**	32
Energy-related businesses	**109**	112	**201**	220
Total Operating Expenses	**878**	802	**2,769**	1,787
Operating Income	**66**	195	**584**	579
Other Income (Expense) - net	**5**	4	**10**	18
Other-Than-Temporary Impairments	**1**		**1**	1
Interest Income from Affiliates	**1**	1	**1**	4
Interest Expense	**43**	51	**80**	98
Income from Continuing Operations Before Income Taxes	**28**	149	**514**	502
Income Taxes	**9**	59	**186**	201
Income from Continuing Operations After Income Taxes	**19**	90	**328**	301
Income (Loss) from Discontinued Operations (net of income taxes)		(1)		2
Net Income Attributable to PPL Energy Supply	**$ 19**	$ 89	**$ 328**	$ 303

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,	
	2012	**2011**	**2012**	**2011**
Net income	**$ 19**	$ 89	**$ 328**	$ 303
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Available-for-sale securities, net of tax of $8, ($1), ($20), ($13)	**(7)**	1	**15**	13
Qualifying derivatives, net of tax of $5, $13, ($52), ($21)	**(9)**	(21)	**47**	29
Reclassifications to net income - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of $1, $0, $3, $5	**(1)**	(1)	**(4)**	(8)
Qualifying derivatives, net of tax of $75, $49, $168, $103	**(108)**	(68)	**(247)**	(147)
Equity investee's other comprehensive (income) loss, net of tax of $0, $0, $0, $0		1		3
Defined benefit plans:				
Prior service costs, net of tax of $0, ($1), ($1), ($2)	**2**	1	**3**	2
Net actuarial loss, net of tax of ($2), ($1), $0, ($1)	**1**	1	**6**	2
Total other comprehensive income (loss) attributable to PPL Energy Supply	**(122)**	(86)	**(180)**	(106)
Comprehensive income (loss) attributable to PPL Energy Supply	**$ (103)**	$ 3	**$ 148**	$ 197

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,	
	2012	**2011**
Cash Flows from Operating Activities		
Net income	**$ 328**	$ 303
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**133**	120
Amortization	**57**	50
Defined benefit plans - expense	**22**	17
Deferred income taxes and investment tax credits	**165**	186
Unrealized (gains) losses on derivatives, and other hedging activities	**(216)**	(163)
Other	**28**	29
Change in current assets and current liabilities		
Accounts receivable	**(2)**	57
Accounts payable	**(57)**	(104)
Unbilled revenues	**61**	126
Fuel, materials and supplies	**(74)**	(26)
Taxes	**(58)**	31
Counterparty collateral	**57**	(258)
Other	**(40)**	(43)
Other operating activities		
Defined benefit plans - funding	**(69)**	(137)
Other assets	**(19)**	(25)
Other liabilities	**(8)**	25
Net cash provided by operating activities	**308**	188
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(316)**	(324)
Proceeds from the sale of certain non-core generation facilities		381
Ironwood Acquisition, net of cash acquired	**(84)**	
Purchases of nuclear plant decommissioning trust investments	**(85)**	(107)
Proceeds from the sale of nuclear plant decommissioning trust investments	**79**	100
Net (increase) decrease in notes receivable from affiliates	**198**	(37)
Net (increase) decrease in restricted cash and cash equivalents	**57**	(14)
Other investing activities	**(22)**	(35)
Net cash provided by (used in) investing activities	**(173)**	(36)
Cash Flows from Financing Activities		
Contributions from member	**472**	168
Distributions to member	**(657)**	(134)
Cash included in net assets of subsidiary distributed to member		(325)
Net increase (decrease) in short-term debt	**120**	(100)
Other financing activities	**(3)**	
Net cash provided by (used in) financing activities	**(68)**	(391)
Net Increase (Decrease) in Cash and Cash Equivalents	**67**	(239)
Cash and Cash Equivalents at Beginning of Period	**379**	661
Cash and Cash Equivalents at End of Period	**$ 446**	$ 422

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, 2012	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	**$ 446**	$ 379
Restricted cash and cash equivalents	**93**	145
Accounts receivable (less reserve: 2012, $23; 2011, $15)		
Customer	**181**	169
Other	**22**	31
Accounts receivable from affiliates	**89**	89
Unbilled revenues	**341**	402
Note receivable from affiliate		198
Fuel, materials and supplies	**372**	298
Prepayments	**44**	14
Price risk management assets	**2,471**	2,527
Other current assets	**12**	11
Total Current Assets	**4,071**	4,263
Investments		
Nuclear plant decommissioning trust funds	**681**	640
Other investments	**42**	40
Total Investments	**723**	680
Property, Plant and Equipment		
Non-regulated property, plant and equipment		
Generation	**11,191**	10,517
Nuclear fuel	**524**	457
Other	**253**	245
Less: accumulated depreciation - non-regulated property, plant and equipment	**5,649**	5,573
Non-regulated property, plant and equipment, net	**6,319**	5,646
Construction work in progress	**810**	840
Property, Plant and Equipment, net (a)	**7,129**	6,486
Other Noncurrent Assets		
Goodwill	**86**	86
Other intangibles (a)	**244**	386
Price risk management assets	**1,035**	896
Other noncurrent assets	**387**	382
Total Other Noncurrent Assets	**1,752**	1,750
Total Assets	**$ 13,675**	$ 13,179

(a) Both June 30, 2012 and December 31, 2011 include $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)

	June 30, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities		
Short-term debt	**$ 520**	$ 400
Long-term debt due within one year	**12**	
Accounts payable	**428**	472
Accounts payable to affiliates	**5**	14
Taxes	**32**	90
Interest	**31**	30
Price risk management liabilities	**1,570**	1,560
Counterparty collateral	**205**	148
Deferred income taxes	**296**	315
Other current liabilities	**209**	196
Total Current Liabilities	**3,308**	3,225
Long-term Debt	**3,267**	3,024
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**1,286**	1,223
Investment tax credits	**159**	136
Price risk management liabilities	**958**	785
Accrued pension obligations	**156**	214
Asset retirement obligations	**359**	349
Other deferred credits and noncurrent liabilities	**182**	186
Total Deferred Credits and Other Noncurrent Liabilities	**3,100**	2,893
Commitments and Contingent Liabilities (Note 10)		
Equity		
Member's equity	**3,982**	4,019
Noncontrolling interests	**18**	18
Total Equity	**4,000**	4,037
Total Liabilities and Equity	**$ 13,675**	$ 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
March 31, 2012	$	3,713	$	18	$	3,731
Net income		19				19
Other comprehensive income (loss)		(122)				(122)
Contributions from member		472				472
Distributions		(100)				(100)
June 30, 2012	$	3,982	$	18	$	4,000
December 31, 2011	$	4,019	$	18	$	4,037
Net income		328				328
Other comprehensive income (loss)		(180)				(180)
Contributions from member		472				472
Distributions		(657)				(657)
June 30, 2012	$	3,982	$	18	$	4,000
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

(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 June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Operating Revenues				
Retail electric	**$ 403**	$ 436	**$ 860**	$ 990
Electric revenue from affiliate	**1**	4	**2**	8
Total Operating Revenues	**404**	440	**862**	998
Operating Expenses				
Operation				
Energy purchases	**120**	169	**273**	420
Energy purchases from affiliate	**17**	4	**38**	10
Other operation and maintenance	**143**	126	**283**	256
Depreciation	**39**	37	**78**	70
Taxes, other than income	**22**	22	**48**	57
Total Operating Expenses	**341**	358	**720**	813
Operating Income	**63**	82	**142**	185
Other Income (Expense) - net	**1**	1	**3**	1
Interest Expense	**24**	24	**48**	48
Income Before Income Taxes	**40**	59	**97**	138
Income Taxes	**11**	19	**31**	42
Net Income (a)	**29**	40	**66**	96
Distributions on Preference Stock		4	**4**	8
Net Income Available to PPL Corporation	**$ 29**	$ 36	**$ 62**	$ 88

(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)

	Six Months Ended June 30,	
	2012	**2011**
Cash Flows from Operating Activities		
Net income	**$ 66**	$ 96
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	**78**	70
Amortization	**9**	
Defined benefit plans - expense	**11**	9
Deferred income taxes and investment tax credits	**59**	(19)
Other	**5**	2
Change in current assets and current liabilities		
Accounts receivable	**19**	(48)
Accounts payable	**(37)**	(75)
Unbilled revenues	**11**	47
Prepayments	**(18)**	38
Regulatory assets and liabilities	**(12)**	63
Taxes		10
Other	**(11)**	(16)
Other operating activities		
Defined benefit plans - funding	**(54)**	(102)
Other assets	**2**	(7)
Other liabilities	**(27)**	(5)
Net cash provided by (used in) operating activities	**101**	63
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(256)**	(244)
Other investing activities	**(1)**	4
Net cash provided by (used in) investing activities	**(257)**	(240)
Cash Flows from Financing Activities		
Redemption of preference stock	**(250)**	
Payment of common stock dividends to parent	**(56)**	(52)
Net increase (decrease) in note payable to affiliate		37
Net increase (decrease) in short-term debt	**195**	
Distributions on preference stock	**(8)**	(8)
Net cash provided by (used in) financing activities	**(119)**	(23)
Net Increase (Decrease) in Cash and Cash Equivalents	**(275)**	(200)
Cash and Cash Equivalents at Beginning of Period	**320**	204
Cash and Cash Equivalents at End of Period	**$ 45**	$ 4

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, 2012	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	**$ 45**	$ 320
Accounts receivable (less reserve: 2012, $18; 2011, $17)		
Customer	**261**	271
Other	**6**	9
Accounts receivable from affiliates	**30**	35
Unbilled revenues	**87**	98
Materials and supplies	**38**	42
Prepayments	**96**	78
Other current assets	**29**	30
Total Current Assets	**592**	883
Property, Plant and Equipment		
Regulated utility plant	**6,024**	5,830
Less: accumulated depreciation - regulated utility plant	**2,269**	2,217
Regulated utility plant, net	**3,755**	3,613
Other, net	**2**	2
Construction work in progress	**262**	242
Property, Plant and Equipment, net	**4,019**	3,857
Other Noncurrent Assets		
Regulatory assets	**734**	729
Intangibles	**161**	155
Other noncurrent assets	**80**	81
Total Other Noncurrent Assets	**975**	965
Total Assets	**$ 5,586**	$ 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)

	June 30, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities		
Short-term debt	**$ 195**	
Accounts payable	**154**	$ 171
Accounts payable to affiliates	**49**	64
Interest	**23**	24
Regulatory liabilities	**42**	53
Customer deposits and prepayments	**29**	39
Vacation	**23**	22
Other current liabilities	**39**	47
Total Current Liabilities	**554**	420
Long-term Debt	**1,718**	1,718
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**1,168**	1,115
Investment tax credits	**4**	5
Accrued pension obligations	**139**	186
Regulatory liabilities	**9**	7
Other deferred credits and noncurrent liabilities	**113**	129
Total Deferred Credits and Other Noncurrent Liabilities	**1,433**	1,442
Commitments and Contingent Liabilities (Notes 6 and 10)		
Shareowners' Equity		
Preference stock		250
Common stock - no par value (a)	**364**	364
Additional paid-in capital	**979**	979
Earnings reinvested	**538**	532
Total Equity	**1,881**	2,125
Total Liabilities and Equity	**$ 5,586**	$ 5,705

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at June 30, 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)	Preference stock	Common stock	Additional paid-in capital	Earnings reinvested	Total
March 31, 2012	66,368	$ 250	$ 364	$ 979	$ 530	$ 2,123
Net income					29	29
Redemption of preference stock (b)		(250)				(250)
Cash dividends declared on common stock					(21)	(21)
June 30, 2012	66,368	$	$ 364	$ 979	$ 538	$ 1,881
December 31, 2011	66,368	$ 250	$ 364	$ 979	$ 532	$ 2,125
Net income					66	66
Redemption of preference stock (b)		(250)				(250)
Cash dividends declared on preference stock					(4)	(4)
Cash dividends declared on common stock					(56)	(56)
June 30, 2012	66,368	$	$ 364	$ 979	$ 538	$ 1,881
March 31, 2011	66,368	$ 250	$ 364	$ 879	$ 485	$ 1,978
Net income					40	40
Cash dividends declared on preference stock					(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					96	96
Cash dividends declared on preference stock					(8)	(8)
Cash dividends declared on common stock					(52)	(52)
June 30, 2011	66,368	$ 250	$ 364	$ 879	$ 487	$ 1,980

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.
(b) In June 2012, PPL Electric redeemed all of its outstanding preference stock. See Note 7 for additional information.

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,	
	2012	**2011**	**2012**	**2011**
Operating Revenues	**$ 658**	$ 638	**$ 1,363**	$ 1,404
Operating Expenses				
Operation				
Fuel	**215**	206	**428**	421
Energy purchases	**34**	40	**108**	147
Other operation and maintenance	**197**	198	**403**	379
Depreciation	**86**	84	**172**	165
Taxes, other than income	**12**	9	**23**	18
Total Operating Expenses	**544**	537	**1,134**	1,130
Operating Income	**114**	101	**229**	274
Other Income (Expense) - net	**(7)**		**(10)**	(1)
Interest Expense	**37**	36	**75**	72
Income from Continuing Operations Before Income Taxes	**70**	65	**144**	201
Income Taxes	**20**	24	**41**	73
Income from Continuing Operations After Income Taxes	**50**	41	**103**	128
Income (Loss) from Discontinued Operations (net of income taxes)	**(6)**		**(6)**	
Net Income (a)	**$ 44**	$ 41	**$ 97**	$ 128

(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
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30, 2012	2011
Cash Flows from Operating Activities		
Net income	**$ 97**	$ 128
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**172**	165
Amortization	**14**	13
Defined benefit plans - expense	**20**	25
Deferred income taxes and investment tax credits	**56**	146
Other	**(2)**	(15)
Change in current assets and current liabilities		
Accounts receivable	**(11)**	17
Accounts payable	**17**	(20)
Unbilled revenues	**1**	38
Fuel, materials and supplies	**1**	42
Income tax receivable	**2**	40
Taxes	**33**	(6)
Other	**(8)**	(18)
Other operating activities		
Defined benefit plans - funding	**(62)**	(157)
Other assets		(1)
Other liabilities	**24**	10
Net cash provided by operating activities	**354**	407
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(324)**	(180)
Proceeds from the sale of other investments		163
Net (increase) decrease in notes receivable from affiliates	**3**	(29)
Net (increase) decrease in restricted cash and cash equivalents	**(2)**	(4)
Net cash provided by (used in) investing activities	**(323)**	(50)
Cash Flows from Financing Activities		
Net increase (decrease) in short-term debt		(163)
Debt issuance and credit facility costs	**(1)**	(3)
Distributions to member	**(60)**	(146)
Net cash provided by (used in) financing activities	**(61)**	(312)
Net Increase (Decrease) in Cash and Cash Equivalents	**(30)**	45
Cash and Cash Equivalents at Beginning of Period	**59**	11
Cash and Cash Equivalents at End of Period	**$ 29**	$ 56

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, 2012	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	**$ 29**	$ 59
Accounts receivable (less reserve: 2012, $19; 2011, $17)		
Customer	**145**	129
Other	**13**	20
Unbilled revenues	**145**	146
Fuel, materials and supplies	**281**	283
Prepayments	**28**	22
Notes receivable from affiliates	**12**	15
Income taxes receivable	**1**	3
Deferred income taxes	**104**	17
Regulatory assets	**17**	9
Other current assets	**4**	3
Total Current Assets	**779**	706
Investments	**21**	31
Property, Plant and Equipment		
Regulated utility plant	**7,758**	7,519
Less: accumulated depreciation - regulated utility plant	**397**	277
Regulated utility plant, net	**7,361**	7,242
Other, net	**2**	2
Construction work in progress	**574**	557
Property, Plant and Equipment, net	**7,937**	7,801
Other Noncurrent Assets		
Regulatory assets	**601**	620
Goodwill	**996**	996
Other intangibles	**290**	314
Other noncurrent assets	**113**	108
Total Other Noncurrent Assets	**2,000**	2,038
Total Assets	**$ 10,737**	$ 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)

	June 30, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities		
Accounts payable	$ **214**	$ 224
Accounts payable to affiliates	**2**	2
Customer deposits	**47**	45
Taxes	**58**	25
Regulatory liabilities	**16**	20
Interest	**22**	23
Salaries and benefits	**51**	59
Other current liabilities	**45**	35
Total Current Liabilities	**455**	433
Long-term Debt	**4,074**	4,073
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**563**	413
Investment tax credits	**141**	144
Accrued pension obligations	**313**	359
Asset retirement obligations	**118**	116
Regulatory liabilities	**994**	1,003
Price risk management liabilities	**57**	55
Other deferred credits and noncurrent liabilities	**248**	239
Total Deferred Credits and Other Noncurrent Liabilities	**2,434**	2,329
Commitments and Contingent Liabilities (Notes 6 and 10)		
Member's equity	**3,774**	3,741
Total Liabilities and Equity	**$ 10,737**	$ 10,576

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
March 31, 2012	$	3,765
Net income		44
Distributions to member		(35)
June 30, 2012	$	3,774
December 31, 2011	$	3,741
Net income		97
Distributions to member		(60)
Other comprehensive income (loss)		(4)
June 30, 2012	$	3,774
March 31, 2011	$	4,042
Net income		41
Distributions to member		(92)
June 30, 2011	$	3,991
December 31, 2010	$	4,011
Net income		128
Distributions to member		(146)
Other comprehensive income (loss)		(2)
June 30, 2011	$	3,991

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, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Operating Revenues				
Retail and wholesale	**$ 286**	$ 280	**$ 615**	$ 651
Electric revenue from affiliate	**18**	17	**42**	44
Total Operating Revenues	**304**	297	**657**	695
Operating Expenses				
Operation				
Fuel	**92**	82	**181**	167
Energy purchases	**23**	32	**92**	131
Energy purchases from affiliate	**2**	7	**6**	18
Other operation and maintenance	**92**	91	**190**	181
Depreciation	**38**	37	**76**	73
Taxes, other than income	**6**	5	**11**	9
Total Operating Expenses	**253**	254	**556**	579
Operating Income	**51**	43	**101**	116
Other Income (Expense) - net	**(1)**	1		
Interest Expense	**10**	12	**21**	23
Income Before Income Taxes	**40**	32	**80**	93
Income Taxes	**14**	12	**29**	34
Net Income (a)	**$ 26**	$ 20	**$ 51**	$ 59

(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)

	Six Months Ended June 30, 2012	2011
Cash Flows from Operating Activities		
Net income	**$ 51**	$ 59
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**76**	73
Amortization	**6**	6
Defined benefit plans - expense	**9**	11
Deferred income taxes and investment tax credits	**28**	27
Other	**(6)**	
Change in current assets and current liabilities		
Accounts receivable	**(11)**	24
Accounts payable	**11**	(11)
Accounts payable to affiliates	**(10)**	(7)
Unbilled revenues	**6**	27
Fuel, materials and supplies	**6**	41
Other	**19**	(9)
Other operating activities		
Defined benefit plans - funding	**(25)**	(67)
Other assets	**(1)**	
Other liabilities	**1**	3
Net cash provided by operating activities	**160**	177
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(120)**	(79)
Proceeds from the sale of other investments		163
Net (increase) decrease in notes receivable from affiliates	**(6)**	
Net (increase) decrease in restricted cash and cash equivalents	**(2)**	(4)
Net cash provided by (used in) investing activities	**(128)**	80
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)**	(1)
Payment of common stock dividends to parent	**(31)**	(42)
Net cash provided by (used in) financing activities	**(32)**	(218)
Net Increase (Decrease) in Cash and Cash Equivalents		39
Cash and Cash Equivalents at Beginning of Period	**25**	2
Cash and Cash Equivalents at End of Period	**$ 25**	$ 41

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, 2012	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	**$ 25**	$ 25
Accounts receivable (less reserve: 2012, $2; 2011, $2)		
Customer	**64**	60
Other	**6**	9
Unbilled revenues	**59**	65
Accounts receivable from affiliates	**21**	11
Fuel, materials and supplies	**136**	142
Prepayments	**10**	7
Notes receivable from affiliates	**6**	
Income taxes receivable		4
Deferred income taxes	**2**	2
Regulatory assets	**13**	9
Other current assets	**1**	
Total Current Assets	**343**	334
Property, Plant and Equipment		
Regulated utility plant	**3,077**	2,956
Less: accumulated depreciation - regulated utility plant	**168**	116
Regulated utility plant, net	**2,909**	2,840
Construction work in progress	**182**	215
Property, Plant and Equipment, net	**3,091**	3,055
Other Noncurrent Assets		
Regulatory assets	**391**	403
Goodwill	**389**	389
Other intangibles	**155**	166
Other noncurrent assets	**42**	40
Total Other Noncurrent Assets	**977**	998
Total Assets	**$ 4,411**	$ 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)

	June 30, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities		
Accounts payable	**$ 93**	$ 94
Accounts payable to affiliates	**16**	26
Customer deposits	**23**	22
Taxes	**28**	13
Regulatory liabilities	**7**	10
Interest	**6**	6
Salaries and benefits	**13**	14
Other current liabilities	**20**	14
Total Current Liabilities	**206**	199
Long-term Debt	**1,112**	1,112
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**506**	475
Investment tax credits	**41**	43
Accrued pension obligations	**71**	95
Asset retirement obligations	**55**	55
Regulatory liabilities	**472**	478
Price risk management liabilities	**57**	55
Other deferred credits and noncurrent liabilities	**109**	113
Total Deferred Credits and Other Noncurrent Liabilities	**1,311**	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	**80**	60
Total Equity	**1,782**	1,762
Total Liabilities and Equity	**$ 4,411**	$ 4,387

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at June 30, 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
March 31, 2012	21,294	$ 424	$ 1,278	$ 70	$ 1,772
Net income				26	26
Cash dividends declared on common stock				(16)	(16)
June 30, 2012	21,294	$ 424	$ 1,278	$ 80	$ 1,782
December 31, 2011	21,294	$ 424	$ 1,278	$ 60	$ 1,762
Net income				51	51
Cash dividends declared on common stock				(31)	(31)
June 30, 2012	21,294	$ 424	$ 1,278	$ 80	$ 1,782
March 31, 2011	21,294	$ 424	$ 1,278	$ 41	$ 1,743
Net income				20	20
Cash dividends declared on common stock				(25)	(25)
June 30, 2011	21,294	$ 424	$ 1,278	$ 36	$ 1,738
December 31, 2010	21,294	$ 424	$ 1,278	$ 19	$ 1,721
Net income				59	59
Cash dividends declared on common stock				(42)	(42)
June 30, 2011	21,294	$ 424	$ 1,278	$ 36	$ 1,738

(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.

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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,	
	2012	**2011**	**2012**	**2011**
Operating Revenues				
Retail and wholesale	**$ 372**	$ 358	**$ 748**	$ 753
Electric revenue from affiliate	**2**	7	**6**	18
Total Operating Revenues	**374**	365	**754**	771
Operating Expenses				
Operation				
Fuel	**123**	124	**247**	254
Energy purchases	**11**	8	**16**	16
Energy purchases from affiliate	**18**	17	**42**	44
Other operation and maintenance	**98**	100	**193**	184
Depreciation	**48**	47	**96**	92
Taxes, other than income	**6**	4	**12**	9
Total Operating Expenses	**304**	300	**606**	599
Operating Income	**70**	65	**148**	172
Other Income (Expense) - net	**(5)**		**(6)**	1
Interest Expense	**17**	17	**34**	35
Income Before Income Taxes	**48**	48	**108**	138
Income Taxes	**18**	18	**40**	50
Net Income (a)	**$ 30**	$ 30	**$ 68**	$ 88

(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
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Cash Flows from Operating Activities		
Net income	**$ 68**	$ 88
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**96**	92
Amortization	**7**	6
Defined benefit plans - expense	**5**	7
Deferred income taxes and investment tax credits	**53**	49
Other		(10)
Change in current assets and current liabilities		
Accounts receivable	**(24)**	15
Accounts payable	**12**	2
Accounts payable to affiliates	**1**	(19)
Unbilled revenues	**(5)**	11
Fuel, materials and supplies	**(3)**	1
Other	**15**	(15)
Other operating activities		
Defined benefit plans - funding	**(18)**	(45)
Other assets		(1)
Other liabilities	**10**	4
Net cash provided by operating activities	**217**	185
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(203)**	(101)
Net cash provided by (used in) investing activities	**(203)**	(101)
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates	**6**	(10)
Debt issuance and credit facility costs		(2)
Payment of common stock dividends to parent	**(48)**	(68)
Net cash provided by (used in) financing activities	**(42)**	(80)
Net Increase (Decrease) in Cash and Cash Equivalents	**(28)**	4
Cash and Cash Equivalents at Beginning of Period	**31**	3
Cash and Cash Equivalents at End of Period	**$ 3**	$ 7

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, 2012	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	**$ 3**	$ 31
Accounts receivable (less reserve: 2012, $2; 2011, $2)		
Customer	**81**	69
Other	**7**	9
Unbilled revenues	**86**	81
Accounts receivable from affiliates	**15**	
Fuel, materials and supplies	**145**	141
Prepayments	**11**	7
Income taxes receivable	**1**	5
Deferred income taxes	**5**	5
Regulatory assets	**4**	
Other current assets	**5**	3
Total Current Assets	**363**	351
Investments	**20**	31
Property, Plant and Equipment		
Regulated utility plant	**4,681**	4,563
Less: accumulated depreciation - regulated utility plant	**229**	161
Regulated utility plant, net	**4,452**	4,402
Construction work in progress	**390**	340
Property, Plant and Equipment, net	**4,842**	4,742
Other Noncurrent Assets		
Regulatory assets	**210**	217
Goodwill	**607**	607
Other intangibles	**135**	148
Other noncurrent assets	**60**	60
Total Other Noncurrent Assets	**1,012**	1,032
Total Assets	**$ 6,237**	$ 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)

	June 30, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities		
Notes payable with affiliates	**$ 6**	
Accounts payable	**111**	$ 112
Accounts payable to affiliates	**35**	33
Customer deposits	**24**	23
Taxes	**23**	11
Regulatory liabilities	**9**	10
Interest	**10**	11
Salaries and benefits	**13**	15
Other current liabilities	**20**	13
Total Current Liabilities	**251**	228
Long-term Debt	**1,842**	1,842
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**537**	484
Investment tax credits	**100**	101
Accrued pension obligations	**71**	83
Asset retirement obligations	**63**	61
Regulatory liabilities	**522**	525
Other deferred credits and noncurrent liabilities	**90**	87
Total Deferred Credits and Other Noncurrent Liabilities	**1,383**	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
Accumulated other comprehensive income (loss)	**(4)**	
Earnings reinvested	**109**	89
Total Equity	**2,761**	2,745
Total Liabilities and Equity	**$ 6,237**	$ 6,156

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at June 30, 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 income (loss)	Total
March 31, 2012	37,818	$ 308	$ 2,348	$ 103	$ (4)	$ 2,755
Net income				30		30
Cash dividends declared on common stock				(24)		(24)
June 30, 2012	37,818	$ 308	$ 2,348	$ 109	$ (4)	$ 2,761
December 31, 2011	37,818	$ 308	$ 2,348	$ 89		$ 2,745
Net income				68		68
Cash dividends declared on common stock				(48)		(48)
Other comprehensive income (loss)					$ (4)	(4)
June 30, 2012	37,818	$ 308	$ 2,348	$ 109	$ (4)	$ 2,761
March 31, 2011	37,818	$ 308	$ 2,348	$ 62	$ (1)	$ 2,717
Net income				30		30
Cash dividends declared on common stock				(37)		(37)
June 30, 2011	37,818	$ 308	$ 2,348	$ 55	$ (1)	$ 2,710
December 31, 2010	37,818	$ 308	$ 2,348	$ 35		$ 2,691
Net income				88		88
Cash dividends declared on common stock				(68)		(68)
Other comprehensive income (loss)					$ (1)	(1)
June 30, 2011	37,818	$ 308	$ 2,348	$ 55	$ (1)	$ 2,710

(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 and six months ended June 30, 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, developments and seasonal variations.

The classification of certain prior period amounts has been changed to conform to the presentation in the June 30, 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. 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. Therefore, the periods ended June 30, 2012 include three and six months of WPD Midlands' results, compared with two months for the same periods in 2011. See Note 8 for additional information on the acquisition.

(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 additional information.

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 and six months ended June 30, 2012, PPL Electric purchased $184 million and $422 million of accounts receivable from unaffiliated third parties and $74 million and $156 million from its affiliate, PPL EnergyPlus. During the three and six months ended June 30, 2011, PPL Electric purchased $198 million and $452 million of accounts receivable from unaffiliated third parties and $59 million and $120 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 and to 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 Levels 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 fair value 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 disclosures 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 that 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. Because the acquisition of WPD Midlands occurred on April 1, 2011, and PPL consolidates WPD Midlands on a one-month lag, the operating results of the U.K. Regulated segment are not comparable between 2012 and 2011.

Financial data for the segments for the periods ended June 30 are:

	Three Months		Six Months	
	2012	2011	2012	2011
Income Statement Data				
Revenues from external customers				
Kentucky Regulated	$ 658	$ 638	$ 1,363	$ 1,404
U.K. Regulated	557	420	1,119	645
Pennsylvania Regulated	403	436	860	990
Supply (a)	931	995	3,319	2,360
Total	$ 2,549	$ 2,489	$ 6,661	$ 5,399
Intersegment electric revenues				
Pennsylvania Regulated	$ 1	$ 4	$ 2	$ 8
Supply	17	4	38	10
Net Income Attributable to PPL				
Kentucky Regulated	$ 34	$ 31	$ 76	$ 106
U.K. Regulated	196	38	361	93
Pennsylvania Regulated	29	36	62	88
Supply (a)	12	91	313	310
Total	$ 271	$ 196	$ 812	$ 597

	June 30, 2012	December 31, 2011
Balance Sheet Data		
Assets		
Kentucky Regulated	$ 10,288	$ 10,229
U.K. Regulated	13,445	13,364
Pennsylvania Regulated	5,532	5,610
Supply	14,243	13,445
Total assets	$ 43,508	$ 42,648

(a) Includes unrealized gains and losses from economic activity. See Note 14 for additional information.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of shares outstanding that are increased for additional shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the treasury stock method. In 2012 and 2011, these securities included stock options and performance units granted under incentive compensation plans and the Purchase Contracts associated with Equity Units. In 2012, these securities also included the PPL common stock forward sale agreements. See Note 7 for additional information on the forward sale agreements.

The forward sale agreements were dilutive under the treasury stock method for the three and six months ended June 30, 2012 because the average stock price of PPL's common shares exceeded the forward sale price indicated in the forward sale agreements.

The Purchase Contracts will be dilutive under the treasury stock method if the average VWAP of PPL 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 and 2011 because they did not meet this criterion during the three and six months ended June 30, 2012 and 2011. Subject to antidilution adjustments at June 30, 2012, the maximum number of shares issuable to settle the Purchase Contracts was 97.8 million shares, including 86.5 million shares that could be issued under standard provisions of the Purchase Contracts and 11.3 million shares that could be issued under make-whole provisions in the event of early settlement upon a Fundamental Change.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended June 30 used in the EPS calculation are:

	Three Months		Six Months	
	2012	2011	2012	2011
Income (Numerator)				
Income from continuing operations after income taxes attributable to PPL	$ 277	$ 197	$ 818	$ 595
Less amounts allocated to participating securities	2	1	5	3
Income from continuing operations after income taxes available to PPL common shareowners	$ 275	$ 196	$ 813	$ 592
Income (loss) from discontinued operations (net of income taxes) available to PPL	$ (6)	$ (1)	$ (6)	$ 2
Net income attributable to PPL	$ 271	$ 196	$ 812	$ 597
Less amounts allocated to participating securities	2	1	5	3
Net income available to PPL common shareowners	$ 269	$ 195	$ 807	$ 594
Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	579,881	561,652	579,462	522,897
Add incremental non-participating securities:				
Stock options and performance units	444	367	465	287
Forward sale agreements	268		135	
Weighted-average shares - Diluted EPS	580,593	562,019	580,062	523,184

	Three Months		Six Months	
	2012	2011	2012	2011
Basic EPS				
Available to PPL common shareowners:				
Income from continuing operations after income taxes	$ 0.47	$ 0.35	$ 1.40	$ 1.13
Income (loss) from discontinued operations (net of income taxes)	(0.01)		(0.01)	0.01
Net Income	$ 0.46	$ 0.35	$ 1.39	$ 1.14
Diluted EPS				
Available to PPL common shareowners:				
Income from continuing operations after income taxes	$ 0.47	$ 0.35	$ 1.40	$ 1.13
Income (loss) from discontinued operations (net of income taxes)	(0.01)		(0.01)	0.01
Net Income	$ 0.46	$ 0.35	$ 1.39	$ 1.14

For the periods ended June 30, 2012, PPL issued common stock related to stock-based compensation plans, ESOP and DRIP as follows:

(Shares in thousands)	Three Months	Six Months
Stock-based compensation plans (a)	76	353
ESOP		280
DRIP	617	1,175

(a) Includes stock option exercises, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors.

For the periods ended June 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		Six Months	
(Shares in thousands)	2012	2011	2012	2011
Stock options	6,250	5,045	5,966	5,829
Performance units	34	1	115	4

5. Income Taxes

Reconciliations of income tax expense for the periods ended June 30 are:

(PPL)

	Three Months		Six Months	
	2012	2011	2012	2011
Reconciliation of Income Tax Expense				
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 128	$ 104	$ 409	$ 323
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	7	14	32	39
State valuation allowance adjustments (a)				11
Impact of lower U.K. income tax rates (b)	(24)	(11)	(45)	(19)
U.S. income tax on foreign earnings - net of foreign tax credit (c)	(1)	(11)	1	(17)
Federal and state tax reserve adjustments	(4)	(2)	(5)	(3)
Foreign tax reserve adjustments (d)	(8)		(5)	
Federal income tax credits	(3)	(2)	(7)	(7)
Amortization of investment tax credit	(3)	(1)	(5)	(4)
Depreciation not normalized (a)	(2)	(2)	(4)	(6)
State deferred tax rate change (e)			(11)	
Net operating loss carryforward adjustments (f)	(3)		(9)	
Nondeductible acquisition-related costs (g)		8		8
Other	1	(1)	(4)	(6)
Total increase (decrease)	(40)	(8)	(62)	(4)
Total income taxes from continuing operations	$ 88	$ 96	$ 347	$ 319

(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 six months ended June 30, 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 into 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) The U.K. 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 from 26% to 25% effective April 1, 2012.

The U.K. Finance Act of 2010, enacted in July 2010, reduced the U.K. statutory income tax rate from 28% to 27% effective April 1, 2011.

(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 three and six months ended June 30, 2012, PPL recorded a tax benefit following resolution of a U.K. tax issue related to interest expense.
(e) During the six months ended June 30, 2012, PPL recorded an adjustment related to state deferred tax liabilities.
(f) During the three and six months ended June 30, 2012, PPL recorded adjustments to deferred taxes related to net operating loss carryforwards of LKE based on income tax return adjustments.
(g) During the three and six months ended June 30, 2011, PPL recorded non-deductible acquisition-related costs (primarily the U.K. stamp duty tax) associated with its acquisition of WPD Midlands.

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 June 30, 2012 by $13 million ($0.02 per share, basic and diluted).

In July 2012, the U.K. Finance Act of 2012 (the Act) was enacted. The Act reduced the U.K.'s statutory income tax rate from 25% to 24%, effective April 1, 2012 and from 24% to 23%, effective April 1, 2013. 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 2012.

(PPL Energy Supply)

	Three Months		Six Months	
	2012	**2011**	**2012**	**2011**
Reconciliation of Income Tax Expense				
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 10	$ 52	$ 180	$ 176
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	1	10	24	27
State valuation allowance adjustments (a)				6
Federal income tax credits	(2)	(1)	(6)	(6)
State deferred tax rate change (b)			(11)	
Other		(2)	(1)	(2)
Total increase (decrease)	(1)	7	6	25
Total income taxes from continuing operations	$ 9	$ 59	$ 186	$ 201

(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 state deferred income tax expense during the six months ended June 30, 2011 related to valuation allowances.
(b) During the six months ended June 30, 2012, PPL Energy Supply recorded an adjustment related to state deferred tax liabilities.

(PPL Electric)

	Three Months		Six Months	
	2012	**2011**	**2012**	**2011**
Reconciliation of Income Tax Expense				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 14	$ 21	$ 34	$ 48
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3	3	5	7
Federal and state tax reserve adjustments	(2)	(2)	(3)	(4)
Federal and state income tax return adjustments (a)				(2)
Depreciation not normalized (a)	(3)	(2)	(4)	(5)
Other	(1)	(1)	(1)	(2)
Total increase (decrease)	(3)	(2)	(3)	(6)
Total income taxes	$ 11	$ 19	$ 31	$ 42

(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		Six Months	
	2012	2011	2012	2011
Reconciliation of Income Tax Expense				
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 25	$ 23	$ 50	$ 70
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit		2	2	7
Amortization of investment tax credit	(1)	(1)	(3)	(3)
Net operating loss carryforward adjustments (a)	(3)		(9)	
Other	(1)		1	(1)
Total increase (decrease)	(5)	1	(9)	3
Total income taxes from continuing operations	$ 20	$ 24	$ 41	$ 73

(a) During the three and six months ended June 30, 2012, LKE recorded adjustments to deferred taxes related to net operating loss carryforwards based on income tax return adjustments. The impact of these adjustments 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		Six Months	
	2012	2011	2012	2011
Reconciliation of Income Tax Expense				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 14	$ 11	$ 28	$ 33
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	1	1	3	3
Other	(1)		(2)	(2)
Total increase (decrease)		1	1	1
Total income taxes	$ 14	$ 12	$ 29	$ 34

(KU)

	Three Months		Six Months	
	2012	2011	2012	2011
Reconciliation of Income Tax Expense				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 17	$ 17	$ 38	$ 48
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	$ 40	$ 50

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	
	2012	2011	2012	2011
PPL				
Beginning of period	$ 121	$ 251	$ 145	$ 251
Additions based on tax positions of prior years		1	4	1
Reductions based on tax positions of prior years	(4)		(31)	
Additions based on tax positions related to the current year			1	
Reductions based on tax positions related to the current year	(2)	(1)	(2)	(2)
Lapse of applicable statutes of limitations	(2)	(3)	(4)	(5)
Effects of foreign currency translation		2		5
End of period	$ 113	$ 250	$ 113	$ 250
PPL Energy Supply				
Beginning of period	$ 31	$ 28	$ 28	$ 183
Additions based on tax positions of prior years			4	
Reductions based on tax positions of prior years			(1)	
Derecognize unrecognized tax benefits (a)				(155)
End of period	$ 31	$ 28	$ 31	$ 28

	Three Months		Six Months	
	2012	2011	2012	2011
PPL Electric				
Beginning of period	$ 46	$ 59	$ 73	$ 62
Reductions based on tax positions of prior years	(1)		(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)	(3)	(4)	(5)
End of period	$ 43	$ 56	$ 43	$ 56

(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 in PPL Energy Supply's 2011 Form 10-K 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, 2012 and 2011.

At June 30, 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 projected over the next 12 months.

	Increase	Decrease
PPL	$ 21	$ 106
PPL Energy Supply	1	31
PPL Electric	22	38

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 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.

	2012	2011
PPL	$ 36	$ 185
PPL Energy Supply	14	12
PPL Electric	5	10

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. PPL will adopt the safe harbor method with the filing of its 2011 federal income tax return, expected to occur in the third quarter of 2012. The adoption of the safe harbor method is not expected to result in a material change to income tax expense.

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 reserve for this contingency.

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's opinion. In March 2012, the Third Circuit denied PPL's petition. In June 2012, the U.S. Court of Appeals for the Fifth Circuit issued a contrary opinion in an identical case involving another company. In July 2012, PPL filed a petition for a writ of certiorari seeking U.S. Supreme Court review of the Third Circuit's opinion.

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	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Current Regulatory Assets:				
Gas supply clause	$ 7	$ 6		
Fuel adjustment clause	10	3		
Total current regulatory assets	$ 17	$ 9		
Noncurrent Regulatory Assets:				
Defined benefit plans	$ 595	$ 615	$ 270	$ 276
Taxes recoverable through future rates	297	289	297	289
Storm costs	148	154	32	31
Unamortized loss on debt	103	110	71	77
Interest rate swaps	71	69		
Accumulated cost of removal of utility plant	62	53	62	53
Coal contracts (a)	7	11		
AROs	23	18		
Other	29	30	2	3
Total noncurrent regulatory assets	$ 1,335	$ 1,349	$ 734	$ 729
Current Regulatory Liabilities:				
Generation supply charge	$ 21	$ 42	$ 21	$ 42
ECR	9	7		
Gas supply clause	5	6		
Transmission service charge	4	2	4	2
Transmission formula rate	7		7	
Universal service rider	7		7	
Other	5	16	3	9
Total current regulatory liabilities	$ 58	$ 73	$ 42	$ 53
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	$ 666	$ 651		
Coal contracts (a)	161	180		
Power purchase agreement - OVEC (a)	112	116		
Net deferred tax assets	37	39		
Act 129 compliance rider	9	7	$ 9	$ 7
Defined benefit plans	10	9		
Other	8	8		
Total noncurrent regulatory liabilities	$ 1,003	$ 1,010	$ 9	$ 7

	LKE		LG&E		KU	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Current Regulatory Assets:						
Gas supply clause	$ 7	$ 6	$ 7	$ 6		
Fuel adjustment clause	10	3	6	3	$ 4	
Total current regulatory assets	$ 17	$ 9	$ 13	$ 9	$ 4	
Noncurrent Regulatory Assets:						
Defined benefit plans	$ 325	$ 339	$ 215	$ 225	$ 110	$ 114
Storm costs	116	123	63	66	53	57
Unamortized loss on debt	32	33	21	21	11	12
Interest rate swaps	71	69	71	69		
Coal contracts (a)	7	11	3	5	4	6
AROs	23	18	12	11	11	7
Other	27	27	6	6	21	21
Total noncurrent regulatory assets	$ 601	$ 620	$ 391	$ 403	$ 210	$ 217
Current Regulatory Liabilities:						
ECR	$ 9	$ 7			$ 9	$ 7
Gas supply clause	5	6	$ 5	$ 6		
Other	2	7	2	4		3
Total current regulatory liabilities	$ 16	$ 20	$ 7	$ 10	$ 9	$ 10
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	$ 666	$ 651	$ 291	$ 286	$ 375	$ 365
Coal contracts (a)	161	180	70	78	91	102
Power purchase agreement - OVEC (a)	112	116	78	80	34	36
Net deferred tax assets	37	39	30	31	7	8
Defined benefit plans	10	9			10	9
Other	8	8	3	3	5	5
Total noncurrent regulatory liabilities	$ 994	$ 1,003	$ 472	$ 478	$ 522	$ 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 in Kentucky. In May 2012, the KPSC issued an order approving the request to build the NGCC. LG&E will own a 22% undivided interest, and KU will own a 78% undivided interest in the new NGCC. A formal request for recovery of the costs associated with the NGCC construction was not included in the CPCN filing with the KPSC but is expected to be included in future rate proceedings. See Note 8 for additional information.

In conjunction with this construction and to meet new, stricter EPA regulations with a 2015 compliance date, LG&E and KU anticipate retiring three coal-fired generating units at LG&E's Cane Run plant, one coal-fired generating unit at KU's Tyrone plant and two coal-fired generating units at KU's Green River plant. These generating units represent 797 MW of combined summer capacity.

The CPCN application also requested approval to purchase the Bluegrass CTs. The May 2012 KPSC approval included authority to complete the Bluegrass CT acquisition. 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. In May 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to approval by the FERC of satisfactory mitigation measures to address market-power concerns. After a review of potentially available mitigation options, LG&E and KU determined that the options were not commercially justifiable. In June 2012, LG&E and KU terminated the purchase contract for the Bluegrass CTs in accordance with its terms and made applicable filings with the KPSC and FERC. LG&E and KU are currently assessing the impact of the Bluegrass contract termination and potential future generation capacity options. See Note 8 for additional information.

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. On July 2, 2012, the KPSC issued an order approving the calculations contained in the 2011 ASSD filing and determined that such calculations produced no deferral amounts for the purpose of establishing regulatory liabilities and are proper and in accordance with the settlement agreement. 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, currently expected to be 2013. Therefore, due to the timing of the current rate case in Kentucky, no further ASSD filings are expected.

Rate Case Proceedings

In June 2012, LG&E and KU filed requests with the KPSC for increases in annual base electric rates of approximately $62 million at LG&E and approximately $82 million at KU and an increase in annual base gas rates of approximately $17 million at LG&E. The proposed base rate increases would result in electric rate increases of 6.9% at LG&E and 6.5% at KU and a gas rate increase of 7.0% at LG&E and would be effective in January 2013. LG&E's and KU's applications include requests for authorized returns-on-equity at LG&E and KU of 11% each. A hearing on these matters is expected to be scheduled during the fourth quarter of 2012. LG&E and KU cannot predict the outcome of these proceedings.

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 or its impact on PPL Electric's financial condition or results of operation.

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 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. In August 2012, the PUC issued a Final Implementation Order adopting procedures, guidelines and a model tariff for the implementation of Act 11 of 2012. No petition requesting permission to establish a distribution system improvements charge may be filed with the PUC before January 1, 2013.

Rate Case Proceeding

In March 2012, PPL Electric filed a request with the PUC to increase distribution rates by approximately $105 million. The proposed distribution revenue rate increase would result in a 2.9% increase over PPL Electric's total rates at the time of filing and be effective January 1, 2013. PPL Electric's application includes a request for an authorized return on equity of 11.25%. Hearings on this matter are scheduled during August 2012 and a decision is expected in the fourth quarter of 2012. PPL Electric cannot predict the outcome of this proceeding.

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). 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. To date, PPL Electric has met the 2011 requirement, subject to the PUC's verification.

Act 129 requires the PUC to evaluate the costs and benefits of the EE&C program by November 30, 2012 and adopt additional reductions if the benefits of the program exceed the costs. In March 2012, the PUC began the process of designing Phase II of the EE&C program. In August 2012, after receiving input from stakeholders, the PUC issued a Final Implementation Order establishing a three-year Phase II program with consumption reduction targets for each EDC. PPL Electric's reduction target is 2.1%. The PUC did not establish any demand reduction targets for the Phase II program. EDCs must file Phase II plans with the PUC by November 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 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.

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.

The PUC has directed all EDCs to file default service procurement plans for the period June 1, 2013 through May 31, 2015. PPL Electric filed its plan in May 2012. In that plan, PPL Electric proposes a process to obtain supply for its default service customers and it proposes a number of initiatives designed to encourage more customers to purchase electricity from the competitive retail market. The PUC has assigned PPL Electric's plan to an Administrative Law Judge for hearings and a recommended decision. The PUC is expected to rule on the plan in 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 May 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. In January 2012, PPL Electric filed a response to that formal challenge.

In May 2012, PPL Electric initiated its formula rate 2012 Annual Update which currently is in the 180-day review and challenge period. PPL Electric cannot predict the outcome of the foregoing 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 approximately $50 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 June 30, 2012 and December 31, 2011. In May 2012, the FERC issued an order approving PPL Electric's request effective June 1, 2012.

U. K. Activities *(PPL)*

Ofgem Review of Line Loss Calculation

WPD has a $167 million liability recorded at June 30, 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 to be used by all network operators 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. In March 2012, Ofgem issued a decision regarding the preferred methodology. In July 2012, Ofgem issued a consultation paper regarding certain aspects of the preferred methodology as it relates to the DPCR4 line loss incentive/penalty and a proposal to delay the target date for making a final decision until April 2013 together with a proposal to remove the line loss incentive/penalty for DPCR5. PPL cannot predict the outcome of this matter.

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, provide credit support, and provide a backstop to commercial paper programs. The following credit facilities were in place at:

	June 30, 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			300		£ 70
WPD (West Midlands) Syndicated Credit Facility	Apr. 2016	300			300		71
Uncommitted Credit Facilities		84		£ 4	80		3
Total WPD Credit Facilities (d)		£ 1,079	£ 110	£ 4	£ 965	£ 111	£ 144
PPL Energy Supply (e)							
Syndicated Credit Facility	Oct. 2016	$ 3,000		$ 662	$ 2,338		$ 541
Letter of Credit Facility	Mar. 2013	200	n/a	128	72	n/a	89
Total PPL Energy Supply Credit Facilities		$ 3,200		$ 790	$ 2,410		$ 630

		June 30, 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 Electric (e)							
Syndicated Credit Facility (f)	Oct. 2016	$ 300		$ 196	$ 104		$ 1
Asset-backed Credit Facility (g)	July 2012	150		n/a	150		n/a
Total PPL Electric Credit Facilities		$ 450		$ 196	$ 254		$ 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 June 30, 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 the previous £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 June 30, 2012, the U.S. dollar equivalent of unused capacity under WPD's credit facilities was approximately $1.5 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 from $200 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 June 30, 2012 and December 31, 2011, $237 million and $251 million of accounts receivable and $87 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 June 30, 2012, the amount available for borrowing under the facility was limited to $87 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 2012, PPL Electric and the subsidiary extended this agreement to September 2012 and reduced the capacity to $100 million.

(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 June 30, 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 2016, but is subject to automatic one-year renewals under certain conditions. There were no secured obligations outstanding under this facility at June 30, 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 June 30, 2012, PPL Energy Supply had $520 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of approximately 0.48%.

In July 2012, PPL Energy Supply entered into uncommitted letter of credit facilities with available capacity of $75 million and $100 million, respectively, which expire in July 2014 and 2015. Both facilities contain a financial covenant requiring PPL Energy Supply's debt to capitalization not to exceed 65%, as calculated in accordance with the agreements. PPL Energy Supply will pay customary fees for letters of credit issued under these facilities.

(PPL and PPL Electric)

In May 2012, PPL Electric increased the capacity of its commercial paper program from $200 million to $300 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. At June 30, 2012, PPL Electric had $195 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of approximately 0.49%.

(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 are supported by LG&E's and KU's Syndicated Credit Facilities. LG&E and KU had no commercial paper outstanding at June 30, 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 591 thousand 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 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 591 thousand shares of PPL 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.

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 were used for general corporate purposes.

In June 2012, PPL Capital Funding issued $400 million of 4.20% Senior Notes due 2022. The notes may be redeemed at PPL Capital Funding's option any time prior to maturity at make-whole redemption prices. PPL Capital Funding received proceeds of $396 million, net of a discount and underwriting fees, that will be used for general corporate purposes.

In July 2012, PPL Capital Funding gave notice of its election to redeem at par on August 14, 2012, together with interest accrued to the redemption date, the entire $99 million outstanding principal amount of its 6.85% Senior Notes due 2047.

See Note 7 in PPL's 2011 Form 10-K for information on the 2011 Bridge Facility, 2011 Equity Units and the April 2011 issuance of common stock.

(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 June 2012, PPL Electric redeemed all 2.5 million shares of its 6.25% Series Preference Stock, par value $100 per share. The price paid for the redemption was the par value, without premium ($250 million in the aggregate). At December 31, 2011, the preference stock was reflected in "Noncontrolling Interests" on PPL's Balance Sheet and in "Preference stock" on PPL Electric's Balance Sheet.

(PPL and LKE)

In June 2012, LKE completed an exchange of all its outstanding 4.375% Senior Notes due 2021 issued in September 2011 in a transaction not registered under the Securities Act of 1933, for similar securities that were issued in a transaction registered with the SEC. 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 May 2012, PPL declared its quarterly common stock dividend, payable July 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 six months ended June 30, 2012, the following distributions and capital contributions occurred:

	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Dividends/distributions paid to parent/member	$ 657	$ 56	$ 60	$ 31	$ 48
Capital contributions received from parent/member	472				

(PPL, LKE, LG&E and KU)

Since the payment of dividends from jurisdictional public utilities is governed by the Federal Power Act, LG&E and KU petitioned the FERC requesting authorization to pay dividends in the future based on retained earnings balances calculated without giving effect to the impact of purchase accounting adjustments for the acquisition of LKE by PPL. In May 2012, FERC approved the petitions; however, each utility's adjusted equity ratio must equal or exceed 30% of total capitalization in order to pay dividends. LG&E and KU do not intend to change their dividend practices as a result of this order.

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)*

On April 13, 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. See Note 11 in PPL's and PPL Energy Supply's 2011 Form 10-K for additional information on the tolling agreement. The acquisition provides PPL Energy Supply, through its subsidiaries, operational control of additional combined-cycle gas generation in PJM.

The consideration paid for this acquisition, subject to finalization of working capital, net indebtedness and fair value adjustments, was as follows.

Aggregate enterprise consideration	$ 326
Less: Estimated fair value of long-term debt outstanding assumed through consolidation (a)	258
Plus: Restricted cash debt service reserves	17
Cash consideration paid for equity interests (including estimated working capital adjustments)	$ 85

(a) The estimated long-term debt assumed through consolidation consisted of $226 million aggregate principal amount of 8.857% senior secured bonds to be fully repaid by 2025, plus $8 million of debt service reserve loans, and a $24 million estimated fair value adjustment.

Preliminary Purchase Price Allocation

The following table summarizes the preliminary allocation of the purchase price to the estimated fair value of the major classes of assets acquired and liabilities assumed through consolidation, and the effective settlement of the tolling agreement through consolidation.

PP&E	$ 505
Long-term debt (current and noncurrent) (a)	(258)
Tolling agreement assets eliminated (b)	(170)
Other net assets	8
Net identifiable assets acquired (c)	$ 85

(a) Represents non-cash activity excluded from the Statement of Cash Flows for the six months ended June 30, 2012.

(b) Represents PPL EnergyPlus' existing assets, primarily an intangible asset , which represented PPL EnergyPlus' rights to and the related accounting for the tolling agreement with PPL Ironwood, LLC prior to the acquisition. On the acquisition date, PPL Ironwood, LLC recorded a liability, recognized at estimated fair value, for its obligation to PPL EnergyPlus. The tolling agreement assets of PPL EnergyPlus and the tolling agreement liability of PPL Ironwood, LLC eliminate in consolidation for PPL and PPL Energy Supply as a result of the acquisition, and therefore the agreement is considered effectively settled. Any difference between the tolling agreement assets and liability will result in a gain or loss on the effective settlement of the agreement. That amount is currently estimated to be insignificant.
(c) Goodwill is currently estimated to be insignificant.

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, which were included in the total minimum lease payments disclosed in Note 11 of PPL's and PPL Energy Supply's 2011 Form 10-K, will continue to be made by PPL EnergyPlus to PPL Ironwood, LLC following the acquisition, but will eliminate in consolidation.

In addition, Note 20 of PPL's and PPL Energy Supply's 2011 Form 10-K included annual forecasted amortization expense of $15 million for each of the years 2012 through 2016 related to the PPL EnergyPlus tolling agreement intangible asset. This amortization will eliminate in consolidation for PPL and PPL Energy Supply as PPL Ironwood, LLC is now a subsidiary of PPL Energy Supply as a result of the acquisition.

The purchase price allocation is preliminary and could change in subsequent periods. The preliminary purchase price allocation was based on PPL Energy Supply's best estimates using information obtained as of the reporting date. Any changes to the purchase price allocation that result in material changes to the consolidated financial results will be adjusted retrospectively. The final purchase price allocation is expected to be completed by the end of 2012. The items pending finalization include, but are not limited to, the valuation of PP&E, long-term debt, certain contractual liabilities, including the tolling agreement, the resulting gain (loss) and goodwill.

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 operating structure to a regional operating 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 was recorded in the second half of 2011. Additional severance compensation was recorded during the three and six months ended June 30, 2012, as shown in the table below. The additional severance compensation is included in "Other operation and maintenance" on the Statement of Income.

The changes in the carrying amounts of accrued severance for the periods ended June 30, 2012 was as follows:

	Three Months	Six Months
Accrued severance at the beginning of period	$ 19	$ 21
Severance compensation	4	10
Severance paid	(15)	(23)
Accrued severance at the end of period	$ 8	$ 8

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 Statements of Income and were not part of the reorganization discussed above. 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 pro forma operating revenues and net income attributable to PPL for the periods ended June 30, 2011, which includes WPD Midlands as if the acquisition had occurred January 1, 2010, are as follows.

	Three Months	Six Months
Operating Revenues - PPL consolidated pro forma	$ 2,587	$ 5,802
Net Income Attributable to PPL - PPL consolidated pro forma	288	814

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 periods ended June 30, 2011 include the following pre-tax credits (expenses):

	Income Statement Line Item	Three Months	Six Months
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 adjustments	(a)	(42)	(52)

(a) Primarily includes advisory, accounting and legal fees recorded to "Other Income (Expense) - net" and certain separation benefits recognized during the second quarter of 2011 as noted above recorded in "Other operation and maintenance" on the Statement of Income.

Terminated 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, pending receipt of applicable regulatory approvals. In May 2012, the KPSC issued an order approving the request to purchase the Bluegrass CTs. Also in May 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to approval by the FERC of satisfactory mitigation measures to address market-power concerns. After a review of potentially available mitigation options, LG&E and KU determined that the options were not commercially justifiable. In June 2012, LG&E and KU terminated the asset purchase agreement for the Bluegrass CTs in accordance with its terms and made applicable filings with the KPSC and FERC. LG&E and KU are currently assessing the impact of the Bluegrass contract termination and potential future generation capacity options.

Development

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

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 Kentucky. In May 2012, the KPSC issued an order approving the request. Subject to finalizing contracting agreements and permitting activities, construction is expected to begin in 2012 and be completed during 2015. The project, which includes building a natural gas supply pipeline and related transmission projects, has an estimated cost of approximately $600 million ($130 million for LG&E and $470 million for KU).

In conjunction with this construction and to meet new, stricter federal EPA regulations with a 2015 compliance date, 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 capacity rating of 797 MW. The Cane Run and Green River coal units are anticipated to remain operational until the NGCC generation and associated transmission project is completed. See Note 6 for additional information.

(PPL and PPL Energy Supply)

Bell Bend COLA

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 June 30, 2012 and December 31, 2011, $142 million and $131 million of costs, which includes capitalized interest, associated with the licensing application were capitalized and are included on the Balance Sheets in noncurrent "Other intangibles." PPL Bell Bend believes that the estimated fair value of the COLA currently exceeds the costs expected to be capitalized associated with the licensing application. PPL Bell Bend remains active in the DOE 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.

At June 30, 2012, PPL Electric's estimated share of the project cost has increased to $560 million from approximately $500 million at December 31, 2011, mainly due to increased material costs. In July 2012, PPL Electric began pre-construction activities including tree and vegetation removal from the transmission line's right of way and construction of access roads.

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 periods ended June 30:

	Pension Benefits							
	Three Months				Six Months			
	U.S.		U.K.		U.S.		U.K.	
	2012	2011	2012	2011	2012	2011	2012	2011
PPL								
Service cost	$ 26	$ 23	$ 14	$ 12	$ 52	$ 47	$ 27	$ 17
Interest cost	54	54	85	73	110	109	169	112
Expected return on plan assets	(64)	(61)	(114)	(88)	(130)	(123)	(225)	(140)
Amortization of:								
Prior service cost	6	6	1	1	12	12	2	2
Actuarial (gain) loss	11	8	20	15	21	14	40	29
Net periodic defined benefit costs (credits) prior to termination benefits	33	30	6	13	65	59	13	20
Termination benefits				2				2
Net periodic defined benefit costs (credits)	$ 33	$ 30	$ 6	$ 15	$ 65	$ 59	$ 13	$ 22
PPL Energy Supply								
Service cost	$ 2	$ 1			$ 3	$ 2		
Interest cost	2	2			4	4		
Expected return on plan assets	(3)	(2)			(5)	(4)		
Amortization of:								
Actuarial (gain) loss		1			1	1		
Net periodic defined benefit costs (credits)	$ 1	$ 2			$ 3	$ 3		

	Pension Benefits			
	Three Months		Six Months	
	2012	2011	2012	2011
LKE				
Service cost	$ 5	$ 6	$ 11	$ 12
Interest cost	15	17	32	34
Expected return on plan assets	(17)	(16)	(35)	(32)
Amortization of:				
Prior service cost	1	1	2	2
Actuarial (gain) loss	6	6	11	11
Net periodic defined benefit costs (credits)	$ 10	$ 14	$ 21	$ 27
LG&E				
Service cost	$ 1	$ 1	$ 1	$ 1
Interest cost	3	3	7	7
Expected return on plan assets	(4)	(5)	(9)	(9)
Amortization of:				
Prior service cost		1	1	1
Actuarial (gain) loss	2	3	5	6
Net periodic defined benefit costs (credits)	$ 2	$ 3	$ 5	$ 6

	Other Postretirement Benefits			
	Three Months		Six Months	
	2012	2011	2012	2011
PPL				
Service cost	$ 3	$ 3	$ 6	$ 6
Interest cost	8	8	16	16
Expected return on plan assets	(5)	(5)	(11)	(11)
Amortization of:				
Transition obligation		1	1	1
Actuarial (gain) loss	1	1	2	3
Net periodic defined benefit costs (credits)	$ 7	$ 8	$ 14	$ 15
LKE				
Service cost	$ 1	$ 1	$ 2	$ 2
Interest cost	2	2	4	5
Expected return on plan assets	(1)	(1)	(2)	(2)
Amortization of:				
Transition obligation	1	1	1	1
Prior service cost	1		2	1
Actuarial (gain) loss	(1)		(1)	
Net periodic defined benefit costs (credits)	$ 3	$ 3	$ 6	$ 7

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

In addition to the specific plans they sponsor, PPL Energy Supply 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. For the periods ended June 30, PPL Services allocated the following net periodic benefit costs to PPL Energy Supply subsidiaries 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.

	Three Months		Six Months	
	2012	2011	2012	2011
PPL Energy Supply	$ 9	$ 8	$ 19	$ 15
PPL Electric	7	6	15	12
LG&E	3	4	6	8
KU	5	5	9	11

Expected Cash Flows - U.K. Pension Plans

(PPL)

At June 30, 2012, WPD's expected pension contributions for 2012 are $323 million compared with $161 million as disclosed in PPL's 2011 Form 10-K. During the six months ended June 30, 2012, contributions of $275 million were made. The additional 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 12 of its 14 planned competitive solicitations. The solicitations include a mix of short-term and long-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.

<u>TC2 Construction</u> *(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 increase or decrease the ultimate construction price. During 2009 and 2010, the TC2 Owners received 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 has made and may be required to make additional modifications to the combustion system 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 subsequent adjustments to the construction agreement addressing, among other matters, certain historical change order, labor rate and prior liquidated damages amounts. The remaining issues, plus certain potential warranty matters, 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.

WKE Indemnification *(PPL and LKE)*

See footnote (o) to the table in "Guarantees and Other Assurances" in this Note 10 for information on an LKE indemnity relating to its former WKE lease, including related legal proceedings.

(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. Further proceedings have not yet been scheduled by the 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 June 30, 2012, which has been fully reserved. No assurance can be given as to the collectability of the receivable.

In July 2012, PPL EnergyPlus filed its proof of claim in the SMGT bankruptcy proceeding. The total claim is approximately $375 million, predominantly an unsecured claim representing the value for energy sales that will not occur as a result of the termination of the SMGT Contract.

PPL Energy Supply cannot predict any amounts that it may recover in connection with the SMGT bankruptcy or 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.

Notice of Intent to Sue Colstrip Owners

On July 30, 2012, PPL Montana received a Notice of Intent to Sue for violations of the Clean Air Act at Colstrip Steam Electric Station (Notice) from counsel on behalf of the Sierra Club and the Montana Environmental Information Center (MEIC). The Notice was also addressed to the Owner or Managing Agent of Colstrip, and to the other Colstrip co-owners: Avista Corporation, Puget Sound Energy, Portland General Electric Company, Northwest Energy and Pacificorp. The Notice alleges certain violations of the Clean Air Act, including New Source Review, Title V and opacity requirements. The Notice states that Sierra Club and MEIC will request a United States District Court to impose injunctive relief and civil penalties, require a beneficial environmental project in the areas affected by the alleged air pollution and require reimbursement of Sierra Club's and MEIC's costs of litigation and attorney's fees. PPL is evaluating the allegations set forth in the Notice and cannot at this time predict the outcome of this matter.

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. The rulemakings are scheduled to become effective at different times following
effectiveness of the definitional rule for the term "swap". In July 2012, the CFTC approved the rule defining swap, which will become effective 60 days after publication of the rule in the Federal Register. Additionally, 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 continuing. 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. In August 2012, the court denied the MD PSC and CPV Maryland, LLC motions to dismiss the proceeding and the litigation is continuing. 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. At June 30, 2012, there were two remaining claims against PPL Energy Supply totaling $73 million. In July 2012, PPL Montana and the City of Tacoma, one of the parties claiming refunds at FERC, reached a settlement whereby PPL Montana would pay $75 thousand to resolve the City of Tacoma's $23 million claim, $9 million of which represents interest. The settlement does not resolve the remaining claim.

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, 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 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. Under the Federal Power Act, the FERC may assess civil penalties of up to $1 million per day, per violation, for certain violations.

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.

In the course of implementing their programs 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. 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.

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. In addition, legal challenges to new environmental permits or rules add to the uncertainty of estimating the future cost impact of these permits and rules.

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

Air

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 and nitrogen oxide emission allowance cap and trade programs that are 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 2012, the EPA made revisions to the rule. Oral arguments on legal challenges to the CSAPR were 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. LG&E and KU have the ability to recover emission allowance expense through the ECR mechanism; however, actual recovery is subject to the outcome of future review proceedings by the KPSC.

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 its 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 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 that are in attainment or are unclassifiable, states are required to develop maintenance plans by mid-2013 that demonstrate continued attainment. In June 2012, the EPA proposed a rule that strengthens the particulate standards. The EPA expects that states would identify initial non-attainment areas by the end of 2014 and have until 2020 to achieve attainment status for those areas. States could request an extension to 2025 to comply with the rule. Until the rule is finalized, PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict which of their facilities may be located in a non-attainment area and what measures would be required to meet attainment status.

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. In February 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 chemical additive and fabric-filter baghouses to remove certain hazardous air pollutants. Recovery of the cost of certain controls was granted by the KPSC order issued in December 2011. See Note 6 for information on LG&E's and KU's anticipated retirement of certain coal-fired electric generating units in response to this and other environmental regulation. 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 significant. With respect to the PPL Montana plants, modifications to the current air pollution controls installed on Colstrip may be required, the cost of which is not expected to be significant. 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 (SIP). That proposal 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 2012, the EPA finalized a rule providing that implementation of the CSAPR would also meet the BART. This rule also addresses the Pennsylvania SIP deficiency arising from the CAIR remand; however the rule is expected to be challenged by environmental groups.

In Montana, the EPA Region 8 is developing the regional haze plan as the Montana Department of Environmental Quality declined to develop a BART SIP 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 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 but proposed a tighter particulate matter (PM) limit for Corette. Under the draft FIP, Colstrip Units 1 and 2 would require additional controls to meet the proposed more stringent nitrogen oxide and sulfur dioxide limits. PPL Energy Supply filed comments to the EPA's proposed FIP in June 2012 opposing the nitrogen oxide and sulfur dioxide limits for Colstrip based upon the installation of an SNCR and spare scrubber vessel and the PM limit for Corette. The final FIP is expected in 2012. The cost of these potential additional controls could be significant depending on the final outcome of this rulemaking.

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 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.

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. In May 2012, PPL Montana received an information request regarding projects undertaken during the Spring 2012 maintenance outage at Colstrip Unit 1. 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 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, PPL Energy Supply, LKE, LG&E and KU 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, PPL Energy Supply, LKE, LG&E and KU are unable to predict whether such actions will be brought against any of their plants. See "Legal Matters" above for information on a notice of intent to sue received in July 2012 by PPL Montana and the other owners of Colstrip.

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 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)

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 authorized 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. These rules were challenged, and in June 2012 the U.S. Court of Appeals for the D.C. Circuit upheld the EPA's regulations.

In addition, in April 2012, the EPA proposed New Source Performance Standards for carbon dioxide emissions from new coal-fired generating units, combined-cycle natural gas units, and integrated gasification combined-cycle units. The proposal would require new coal plants to achieve the same stringent limitations on carbon-dioxide emissions as the best performing new gas plants. There presently is no commercially available technology to allow new coal plants to achieve these limitations and, as a result, the EPA's proposal would effectively preclude construction of new coal-fired generation 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 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 and PPL Energy Supply cannot predict at this time whether this legislation will be enacted.

Eleven western states and certain Canadian provinces established the Western Climate Initiative (WCI) in 2003. The WCI established a goal of reducing carbon dioxide emissions 15% below 2005 levels by 2020 and developed GHG emission allocations, offsets, and reporting recommendations. Montana was once a partner in the WCI, but by 2011 had withdrawn, along with several other western states.

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 addition, 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.

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

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 and PPL Energy Supply believe 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 and PPL Energy Supply can be 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 renewable energy mandates 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 materially increase costs and result in early retirements of many coal-fired plants as it 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. 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. 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 to 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 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 requested 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 it will issue another NODA later in 2012 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 material, if regulated as a hazardous waste.

Martins Creek Fly Ash Release (PPL and PPL Energy Supply)

In 2005, approximately 100 million gallons of water containing fly ash was released 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 June 30, 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 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 significant 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, PPL Energy Supply, LKE, LG&E and KU plants. PPL, PPL Energy Supply, LKE, LG&E and KU have completed or are completing assessments of seepages or groundwater infiltration at various facilities and have completed or are 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 plant wastewater ponds. 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 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 appealed the October 2011 order to the Montana Supreme Court, and the court's decision is expected in the second half of 2012. Therefore, the settlement ordered by the district court is not final. PPL and PPL Energy Supply cannot predict the outcome of the appeal, although PPL Montana's share of any final settlement 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. Two NODAs have been issued on the rule that indicate the EPA may be willing to amend the rule based on certain industry group comments and the EPA's comment period on the NODAs has ended. The final rule is expected to be issued in 2013. 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 the remaining useful life of the plant. PPL, PPL Energy Supply, LKE, LG&E and KU cannot reasonably estimate a range of reasonably possible costs, if any, 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 issue the final regulations in 2014. PPL, PPL Energy Supply, LKE, LG&E and KU expect 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, states may impose more stringent limits on a case-by-case basis under existing authority as permits are renewed. PPL, PPL Energy Supply, LKE, LG&E and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible costs, but the costs could be significant.

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.

A PPL Energy Supply subsidiary signed a Consent Order and Agreement (COA) with the PADEP in July 2008 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. A barrier has been constructed to prevent debris from entering the river water intake area at a cost that was not significant.

PPL Energy Supply's subsidiary has also investigated alternatives to exclude fish from the discharge channel and submitted three alternatives to the PADEP. The subsidiary and the PADEP have now concluded that a barrier method to exclude fish is not workable. In June 2012, a new COA (the Brunner COA) was signed that allows the subsidiary to study a change in cooling tower operational methods that may keep fish from entering the channel. Should this approach fail, the Brunner COA requires a retrofit of impingement control technology at the intakes to the cooling towers.

In March 2012, the subsidiary received a draft NPDES permit (renewed) for the Brunner Island plant from the PADEP. This permit includes new water quality-based limits for the scrubber wastewater plant. Some of these limits may not be achievable with the existing treatment system. Several agencies and environmental groups commented on the draft permit, raising issues that must be resolved in order to obtain a final permit for the plant. PPL Energy Supply cannot predict the outcome of the final resolution of the permit issues at this time or what impact, if any, they would have on this facility, but the costs 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 plant. In November 2010, the Cabinet issued a final order upholding the permit. In December 2010, the environmental groups appealed the order to the Trimble Circuit Court, but the case was subsequently transferred to the Franklin 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.

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" 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 on the Registrants as a result of any eventual expansion of this interpretation cannot reliably be estimated at this time.

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

PPL Electric is potentially responsible for costs 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 substantially 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 Electric, LG&E and KU currently lack information, the costs of remediation and other liabilities could be material. PPL, PPL Electric, LKE, LG&E and KU are 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, PPL Electric, LKE, LG&E and KU cannot estimate a range of reasonably possible losses, if any, related to these matters.

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

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in significant 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 June 30, 2012, this maximum assessment was $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.

Employee Relations *(PPL, LKE and KU)*

In July 2012, KU and the IBEW Local 2100 ratified a three-year labor agreement containing a 2.5% wage increase through July 2013, a subsequent 2.5% wage increase for July 2013 through July 2014 and a wage reopener for July 2014. The agreement covers approximately 70 employees.

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 at June 30, 2012. The total recorded liability at June 30, 2012 and December 31, 2011, was $24 million and $14 million for PPL and $20 million and $11 million for LKE. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities" and "Indemnification of lease termination and other divestitures."

		Exposure at June 30, 2012 (a)	Expiration Date
PPL			
Indemnifications related to the WPD Midlands acquisition		(b)	
WPD indemnifications for entities in liquidation and sales of assets	$	290 (c)	2014 - 2018
WPD guarantee of pension and other obligations of unconsolidated entities		89 (d)	2015
Tax indemnification related to unconsolidated WPD affiliates		(e)	
PPL Energy Supply (f)			
Letters of credit issued on behalf of affiliates		21 (g)	2012 - 2014
Retrospective premiums under nuclear insurance programs		48 (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		19 (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 June 30, 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 indemnified the lender against certain tax and other liabilities. These indemnifications expired in the second quarter of 2012.

(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. The 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. LKE has contested the applicability of the indemnification requirement relating to one matter presented by a counterparty under this guarantee. Another guarantee with a maximum exposure of $100 million covering other indemnifications expires in 2023. In May 2012, LKE received an arbitration panel's decision affecting this matter, which granted LKE's indemnitee certain rights of first refusal to purchase excess power at a market-based price rather than at an absolute fixed price. In July 2012, LKE's indemnitee filed a judicial action in the Henderson Circuit Court, seeking to vacate the arbitration decision. LKE believes its indemnification obligations in this matter remain subject to various uncertainties, including the legal status of the court's review of the arbitration decision as well as future prices, availability and demand for the subject excess power. LKE continues to evaluate various legal and commercial options with respect to this indemnification matter. The ultimate outcomes of the WKE termination-related indemnifications 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. For the three and six months ended June 30, 2012, LKE has adjusted its estimated liability for certain of these indemnifications by $9 million ($5 million after-tax or $0.01 per share, basic and diluted, for PPL), which is reflected in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statement of Income. The adjustment was recorded in the Kentucky Regulated segment for PPL. No additional material loss is anticipated by reason of such indemnifications.

(p) All guarantees of LG&E and KU also apply to PPL and 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 totaled $16 million and $38 million for the three and six months ended June 30, 2012 and $4 million and $10 million during the same periods in 2011. 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 June 30, 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 June 30, 2012, PPL Energy Supply had a net credit exposure of $38 million from 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 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 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 for the periods ended June 30, which PPL management believes are reasonable, including amounts applied to accounts that are further distributed between capital and expense:

	Three Months		Six Months	
	2012	2011	2012	2011
PPL Energy Supply	$ 53	$ 44	$ 110	$ 94
PPL Electric	39	35	81	74
LKE	3	4	8	9

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 for the periods ended June 30, which LKE management believes are reasonable, including amounts that are further distributed between capital and expense:

	Three Months		Six Months	
	2012	2011	2012	2011
LG&E	$ 40	$ 50	$ 81	$ 83
KU	35	55	81	104

Intercompany Borrowings

(PPL Energy Supply)

A PPL Energy Supply subsidiary periodically holds revolving demand notes from certain affiliates. At June 30, 2012, there were no balances outstanding. At December 31, 2011, a note with PPL Energy Funding had an outstanding balance of $198 million with an interest rate of 3.77% that 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. Interest earned on borrowings was insignificant for the three and six months ended June 30, 2012 and 2011.

(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 June 30, 2012 and December 31, 2011, there were no balances outstanding. Interest expense incurred on the revolving demand note with the PPL Energy Supply subsidiary was not significant for the three and six months ended June 30, 2012 and 2011.

After PPL's acquisition of LKE in November 2010, LKE held a note receivable from a PPL affiliate that has a $300 million borrowing limit whereby LKE can loan funds on a short-term basis at market-based rates. At June 30, 2012 and December 31, 2011, $12 million and $15 million were outstanding and were reflected in "Notes receivable from affiliates" on the Balance Sheets. The interest rates on loans are based on the PPL affiliate's credit rating and are currently equal to one-month LIBOR plus a spread. The interest rates on the outstanding borrowings at June 30, 2012 and December 31, 2011 were 2.24% and 2.27%. Interest income on the note receivable was not significant for the three and six months ended June 30, 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 June 30, 2012 and December 31, 2011, LG&E had no payable balance outstanding, but at June 30, 2012, LG&E had a $6 million receivable balance outstanding, which was reflected in "Notes receivable from affiliates" on the Balance Sheet. The interest rate on the outstanding receivable at June 30, 2012 was 0.48%. 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, 2012 and 2011. Interest income on the money pool agreement with LKE and/or KU was not significant for the three and six months ended June 30, 2012. There was no interest income on the money pool agreement with LKE and/or KU for the three and six months ended June 30, 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 June 30, 2012, $6 million was outstanding and was reflected in "Notes payable with affiliates" on the Balance Sheet. At December 31, 2011, there was no balance outstanding. The interest rate on the outstanding borrowings at June 30, 2012 was 0.48%. 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, 2012 and 2011.

Trademark Royalties *(PPL Energy Supply)*

A PPL subsidiary owns PPL trademarks and billed certain affiliates for their use under a licensing agreement. This agreement was terminated in December 2011. PPL Energy Supply was charged $10 million and $20 million of license fees for the three and six months ended June 30, 2011. These charges are primarily included in "Other operation and maintenance" on the Statement of Income.

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 May 2011, PPL Electric 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 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 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" for the periods ended June 30 was:

	Three Months		Six Months	
	2012	2011	2012	2011
PPL				
Other Income				
Earnings on securities in NDT funds	$ 4	$ 3	$ 12	$ 18
Interest income	2	2	3	4
AFUDC	3	2	5	3
Net hedge gains associated with the 2011 Bridge Facility (a)		62		55
Equity earnings (losses) from unconsolidated affiliates	(4)		(6)	
Miscellaneous - Domestic	3	4	5	7
Miscellaneous - U.K.	2	1	2	1
Total Other Income	10	74	21	88
Other Expense				
Economic foreign currency exchange contracts (Note 14)	(25)	(2)	(7)	
Charitable contributions	2	2	6	5
WPD Midlands acquisition-related costs (Note 8)		26		36
Foreign currency loss on 2011 Bridge Facility (b)		58		58
U.K. stamp duty tax		21		21
Miscellaneous - Domestic	4	1	8	4
Miscellaneous - U.K.	(1)	2	1	3
Total Other Expense	(20)	108	8	127
Other Income (Expense) - net	$ 30	$ (34)	$ 13	$ (39)
PPL Energy Supply				
Other Income				
Earnings on securities in NDT funds	$ 4	$ 3	$ 12	$ 18
Interest income	1	2	1	2
Miscellaneous	1	1	2	3
Total Other Income	6	6	15	23
Other Expense				
Charitable contributions			1	
Miscellaneous	1	2	4	5
Total Other Expense	1	2	5	5
Other Income (Expense) - net	$ 5	$ 4	$ 10	$ 18

(a) Represents a gain on foreign currency contracts that hedged the repayment of the 2011 Bridge Facility borrowing.
(b) Represents a foreign currency loss related to the repayment of the 2011 Bridge Facility borrowing.

"Other Income (Expense) - net" for the three and six months ended June 30, 2012 and 2011 for PPL Electric is primarily AFUDC. "Other Income (Expense) - net" for the three and six months ended June 30, 2012 for LKE and KU is primarily equity losses from an unconsolidated affiliate. The components of "Other Income (Expense) - net" for the three and six months ended June 30, 2012 and 2011 for LG&E 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. During the three and six months ended June 30, 2012, there were no transfers between Level 1 and Level 2.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	June 30, 2012				December 31, 2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	$ 981	$ 981			$ 1,202	$ 1,202		
Restricted cash and cash equivalents (a)	176	176			209	209		
Price risk management assets:								
Energy commodities	3,506	3	$ 3,459	$ 44	3,423	3	$ 3,390	$ 30
Interest rate swaps					3		3	
Foreign currency contracts	19		19		18		18	
Cross-currency swaps	70		60	10	24		20	4
Total price risk management assets	3,595	3	3,538	54	3,468	3	3,431	34
NDT funds:								
Cash and cash equivalents	14	14			12	12		
Equity securities								
U.S. large-cap	317	219	98		292	202	90	
U.S. mid/small-cap	127	94	33		117	87	30	
Debt securities								
U.S. Treasury	96	96			86	86		
U.S. government sponsored agency	10		10		10		10	
Municipality	81		81		83		83	
Investment-grade corporate	35		35		38		38	
Other	2		2		2		2	
Receivables (payables), net	(1)	(4)	3			(3)	3	
Total NDT funds	681	419	262		640	384	256	
Auction rate securities (b)	18		3	15	24			24
Total assets	$ 5,451	$ 1,579	$ 3,803	$ 69	$ 5,543	$ 1,798	$ 3,687	$ 58
Liabilities								
Price risk management liabilities:								
Energy commodities	$ 2,528	$ 3	$ 2,515	$ 10	$ 2,345	$ 1	$ 2,327	$ 17
Interest rate swaps	77		77		63		63	
Foreign currency contracts	4		4					
Cross-currency swaps	2		2		2		2	
Total price risk management liabilities	$ 2,611	$ 3	$ 2,598	$ 10	$ 2,410	$ 1	$ 2,392	$ 17

	June 30, 2012				December 31, 2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL Energy Supply								
Assets								
Cash and cash equivalents	$ 446	$ 446			$ 379	$ 379		
Restricted cash and cash equivalents (a)	110	110			145	145		
Price risk management assets:								
Energy commodities	3,506	3	$ 3,459	$ 44	3,423	3	$ 3,390	$ 30
Total price risk management assets	3,506	3	3,459	44	3,423	3	3,390	30
NDT funds:								
Cash and cash equivalents	14	14			12	12		
Equity securities								
U.S. large-cap	317	219	98		292	202	90	
U.S. mid/small-cap	127	94	33		117	87	30	
Debt securities								
U.S. Treasury	96	96			86	86		
U.S. government sponsored agency	10		10		10		10	
Municipality	81		81		83		83	
Investment-grade corporate	35		35		38		38	
Other	2		2		2		2	
Receivables (payables), net	(1)	(4)	3			(3)	3	
Total NDT funds	681	419	262		640	384	256	
Auction rate securities (b)	15		3	12	19			19
Total assets	$ 4,758	$ 978	$ 3,724	$ 56	$ 4,606	$ 911	$ 3,646	$ 49
Liabilities								
Price risk management liabilities:								
Energy commodities	$ 2,528	$ 3	$ 2,515	$ 10	$ 2,345	$ 1	$ 2,327	$ 17
Total price risk management liabilities	$ 2,528	$ 3	$ 2,515	$ 10	$ 2,345	$ 1	$ 2,327	$ 17
PPL Electric								
Assets								
Cash and cash equivalents	$ 45	$ 45			$ 320	$ 320		
Restricted cash and cash equivalents (c)	13	13			13	13		
Total assets	$ 58	$ 58			$ 333	$ 333		
LKE								
Assets								
Cash and cash equivalents	$ 29	$ 29			$ 59	$ 59		
Restricted cash and cash equivalents (c)	31	31			29	29		
Total assets	$ 60	$ 60			$ 88	$ 88		
Liabilities								
Price risk management liabilities:								
Interest rate swaps (d)	$ 62		$ 62		$ 60		$ 60	
Total liabilities	$ 62		$ 62		$ 60		$ 60	
LG&E								
Assets								
Cash and cash equivalents	$ 25	$ 25			$ 25	$ 25		
Restricted cash and cash equivalents (c)	31	31			29	29		
Total assets	$ 56	$ 56			$ 54	$ 54		
Liabilities								
Price risk management liabilities:								
Interest rate swaps (d)	$ 62		$ 62		$ 60		$ 60	
Total liabilities	$ 62		$ 62		$ 60		$ 60	
KU								
Assets								
Cash and cash equivalents	$ 3	$ 3			$ 31	$ 31		
Total assets	$ 3	$ 3			$ 31	$ 31		

(a) Current portion is included in "Restricted cash and cash equivalents" and the 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" and the long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(d) Current portion is included in "Other current liabilities" and 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, 2012 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Three Months				Six 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	$ 19	$ 24	$ 3	$ 46	$ 13	$ 24	$ 4	$ 41
Total realized/unrealized gains (losses)								
Included in earnings	(2)		(1)	(3)	16		(1)	15
Included in OCI (a)	(1)	(1)	8	6	1	(1)	10	10
Sales		(5)		(5)		(5)		(5)
Settlements	(5)			(5)	(11)			(11)
Transfers into Level 3	14			14	14			14
Transfers out of Level 3	9	(3)		6	1	(3)	(3)	(5)
Balance at end of period	$ 34	$ 15	$ 10	$ 59	$ 34	$ 15	$ 10	$ 59
PPL Energy Supply								
Balance at beginning of period	$ 19	$ 19		$ 38	$ 13	$ 19		$ 32
Total realized/unrealized gains (losses)								
Included in earnings	(2)			(2)	16			16
Included in OCI (a)	(1)	(1)		(2)	1	(1)		
Sales		(3)		(3)		(3)		(3)
Settlements	(5)			(5)	(11)			(11)
Transfers into Level 3	14			14	14			14
Transfers out of Level 3	9	(3)		6	1	(3)		(2)
Balance at end of period	$ 34	$ 12		$ 46	$ 34	$ 12		$ 46

(a) "Energy Commodities, net" 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.

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) "Energy Commodities, net" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

The significant unobservable inputs used in the fair value measurement of assets and liabilities classified as Level 3 at June 30, 2012 are as follows:

	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value, net Asset (Liability)	**Valuation Technique**	**Unobservable Input(s)**	**Range (Weighted Average) (a)**
PPL				
Energy commodities				
Retail natural gas sales contracts (b)	30	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	20% - 100% (69%)
Power sales contracts (c)	(7)	Discounted cash flow	Basis price between delivery points	24% - 61% (25%)
Full-requirement sales contracts (d)	11	Discounted cash flow	Customer migration	13% - 80% (34%)
Auction rate securities (e)	15	Discounted cash flow	Modeled from SIFMA Index	54% - 80% (65%)
Cross-currency swaps (f)	10	Discounted cash flow	Credit valuation adjustment	25% - 37% (32%)
PPL Energy Supply				
Energy commodities				
Retail natural gas sales contracts (b)	30	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	20% - 100% (69%)
Power sales contracts (c)	(7)	Discounted cash flow	Basis price between delivery points	24% - 61% (25%)
Full-requirement sales contracts (d)	11	Discounted cash flow	Customer migration	13% - 80% (34%)
Auction rate securities (e)	12	Discounted cash flow	Modeled from SIFMA Index	61% - 80% (66%)

(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 sales contracts extend through 2017. $14 million of the fair value is scheduled to deliver within the next 12 months. As the forward price of natural gas increases/(decreases), the fair value of the contracts (decreases)/increases.

(c) Power sales contracts extend through 2017. $(4) million of the fair value is scheduled to deliver within the next 12 months. As the forward price of basis increases/(decreases), the fair value of the contracts (decreases)/increases.

(d) Full-requirement sales contracts extend through 2013. $11 million of the fair value is scheduled to deliver within the next 12 months. As customer migration increases/(decreases), the fair value of the contracts decreases/(increases).

(e) Auction rate securities have a weighted average contractual maturity of 26 years. The model used to calculate fair value incorporates an assumption that the auctions will continue to fail. 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 periods ended June 30 are reported in the Statements of Income as follows:

	Three Months									
	Energy Commodities, net								Cross-Currency Swaps	
	Unregulated Retail Electric and Gas		Wholesale Energy Marketing		Net Energy Trading Margins		Energy Purchases		Interest Expense	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
PPL										
Total gains (losses) included in earnings	$ 2	$ 4	$ (6)	$ (5)	$ 1	$ 2	$ 1	$ (6)	$ (1)	
Change in unrealized gains (losses) relating to positions still held at the reporting date	49	4	(12)	(7)	1		1	(2)		
PPL Energy Supply										
Total gains (losses) included in earnings	$ 2	$ 4	$ (6)	$ (5)	$ 1	$ 2	$ 1	$ (6)		
Change in unrealized gains (losses) relating to positions still held at the reporting date	49	4	(12)	(7)	1		1	(2)		

	Six Months									
	Energy Commodities, net								Cross-Currency Swaps	
	Unregulated Retail Electric and Gas		Wholesale Energy Marketing		Net Energy Trading Margins		Energy Purchases		Interest Expense	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
PPL										
Total gains (losses) included in earnings	$ 18	$ 5	$ (2)	$ (4)		$ (3)		$ (2)	$ (1)	
Change in unrealized gains (losses) relating to positions still held at the reporting date	39	5	(13)	(6)	$ 1		$ 1	17		
PPL Energy Supply										
Total gains (losses) included in earnings	$ 18	$ 5	$ (2)	$ (4)		$ (3)		$ (2)		
Change in unrealized gains (losses) relating to positions still held at the reporting date	39	5	(13)	(6)	$ 1		$ 1	17		

Price Risk Management Assets/Liabilities - Energy Commodities (*PPL and PPL Energy Supply)*

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. 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 full-requirement sales contract 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. The fair value of contracts classified as Level 3 has been calculated using PPL proprietary models which include significant unobservable inputs such as delivery at a location where pricing is unobservable, assumptions for customer migration or delivery dates that are beyond the dates for which independent quotes are available. 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 which is used by accounting personnel 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.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Contracts/Cross-Currency Swaps (*PPL, LKE and LG&E)*

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 June 30, 2012 have a weighted-average coupon of 4.22% and a weighted-average maturity of 8.3 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 that includes readily observable inputs, such as principal payments and discount curves for bonds with credit ratings and maturities similar to the securities, and unobservable inputs, such as future interest rates that are estimated based on the SIFMA Index, creditworthiness, and liquidity assumptions driven by the impact of auction failures. When the present value of future interest payments is significant to the overall valuation, the auction rate securities are classified as Level 3. The primary reason for the transfer out of Level 3 in 2012 was the change in the significance of the present value of future interest payments as maturity dates approach.

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, which incorporate the credit risk of the Registrants. These instruments are classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	June 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
PPL				
Contract adjustment payments (a)	$ 152	$ 154	$ 198	$ 198
Long-term debt	18,710	20,402	17,993	19,392
PPL Energy Supply				
Long-term debt	3,279	3,663	3,024	3,397
PPL Electric				
Long-term debt	1,718	2,020	1,718	2,012
LKE				
Long-term debt	4,074	4,333	4,073	4,306
LG&E				
Long-term debt	1,112	1,166	1,112	1,164
KU				
Long-term debt	1,842	2,004	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 (including notes between affiliates), 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 June 30, 2012, PPL had credit exposure of $2.9 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 $843 million. The top ten counterparties accounted for $429 million, or 51%, of the net exposure and all had investment grade credit ratings from S&P or Moody's.

(PPL Energy Supply)

At June 30, 2012, PPL Energy Supply had credit exposure of $2.9 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 $842 million. The top ten counterparties accounted for $429 million, or 51%, of the net exposure and all had investment grade credit ratings from S&P or Moody's. See Note 11 for information regarding the related party credit exposure.

(PPL Electric)

At June 30, 2012, 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, 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 transactions or arrangements, 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. Many of the contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless they qualify for NPNS.

The table below summarizes the market risks that affect PPL and its subsidiaries.

	PPL	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Commodity price risk (including basis and volumetric risk)	X	X	M	M	M	M
Interest rate risk:						
Debt issuances	X	X	M	M	M	M
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Equity securities price risk:						
Defined benefit plans	X	X	M	M	M	M
NDT securities	X	X				
Future stock transactions	X					
Foreign currency risk - WPD investment	X					

X = PPL and PPL Energy Supply actively mitigate market risks through their risk management programs described above.
M = The regulatory environments for PPL's regulated entities, by definition, significantly mitigate market risk.

Commodity price risk

- PPL Energy Supply is exposed to 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;
- PPL Electric is exposed to market and volumetric risks from its obligation as PLR; however, its PUC-approved cost recovery mechanism substantially eliminates its 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; and
- LG&E's and KU's rates include 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.

Interest rate risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. WPD holds over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from foreign currency exchange rates. LG&E utilizes over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt.

- PPL and its subsidiaries are exposed to interest rate risk associated with debt securities held by defined benefit plans. Additionally, PPL Energy Supply is exposed to interest rate risk associated with debt securities held by the NDT.

Equity securities price risk

- PPL and its subsidiaries are exposed to equity securities price risk associated with equity securities held by defined benefit plans. Additionally, PPL Energy Supply is exposed to equity securities price risk in the NDT funds.

- PPL is exposed to equity securities price risk from future stock sales and/or purchases.

Foreign currency risk

- PPL is exposed to foreign currency exchange risk primarily associated with its investments in U.K. affiliates.

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.

LKE and LG&E are 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 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 energy trading partners.

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 $205 million and $147 million at June 30, 2012 and December 31, 2011.

PPL Electric, LKE and LG&E had no obligation to return cash collateral under master netting arrangements at June 30, 2012 and December 31, 2011.

PPL, LKE and LG&E had posted cash collateral under master netting arrangements of $31 million and $29 million at June 30, 2012 and December 31, 2011.

PPL Energy Supply and PPL Electric had not posted any cash collateral under master netting arrangements at June 30, 2012 and December 31, 2011.

Commodity Price Risk (Non-trading)

(PPL and PPL Energy Supply)

Commodity price risk, including basis and volumetric risk, is 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, natural 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

Certain 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, 2012 range in maturity through 2016. At June 30, 2012, the accumulated net unrecognized after-tax gains (losses) that are expected to be reclassified into earnings during the next 12 months were $260 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 six months ended June 30, 2012 and 2011, such reclassifications were insignificant.

For the three and six months ended June 30, 2012, hedge ineffectiveness associated with energy derivatives was insignificant. For the three and six months ended June 30, 2011, hedge ineffectiveness associated with energy derivatives resulted in after-tax gains (losses) of $(10) million and $(14) million.

Certain cash flow hedge positions were dedesignated during the six months ended June 30, 2012. The fair value of the hedges at December 31, 2011 remained in AOCI because the original forecasted transaction is still expected to occur. Pre-tax gains (losses) of $123 million, representing the change in fair value of the remaining positions during the six months ended June 30, 2012, were recorded as economic activity in "Wholesale energy marketing - Unrealized" on the Statement of Income.

Economic Activity

Many derivative contracts economically hedge the commodity price risk associated with electricity, natural 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 June 30, 2012 range in maturity through 2019.

Examples of economic activity include hedges on sales of baseload generation; dedesignations as discussed in "Cash Flow Hedges" above; 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 natural 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, 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 and six months ended June 30, 2012 and 2011.

The net fair value of economic positions at June 30, 2012 and December 31, 2011 was a net asset (liability) of $796 million and $(63) million for PPL Energy Supply. The unrealized gains (losses) for economic activity for the periods ended June 30 were as follows.

	Three Months		Six Months	
	2012	2011	2012	2011
PPL Energy Supply				
Operating Revenues				
Unregulated retail electric and gas	$ (12)	$ 1	$ (2)	$ 5
Wholesale energy marketing	(458)	(44)	394	13
Operating Expenses				
Fuel	(16)	(11)	(14)	12
Energy purchases	442	109	(149)	127

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 competitive baseload generation, optimization of competitive 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 Competitive 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
25,889	49,602	52,358

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

The following table presents the percentage of expected competitive 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, 2012.

Year	Derivative Sales (a)	Total Power Sales (b)	Fuel Purchases (c)	
			Coal	Nuclear
2012 (d)	94%	97%	108%	100%
2013	90%	94%	106%	100%
2014 (e)	21%	25%	71%	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 1,737 GWh and 2.0 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 and contracts that qualify for NPNS used in support of these strategies at June 30, 2012.

	2012 (a)	2013	2014
Oil Swaps	68	393	240

(a) Represents the balance of the current year.

Optimization of Competitive 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 natural gas and oil-fired generation. The following table presents the net volumes of derivative (sales)/purchase contracts used in support of this strategy at June 30, 2012.

	Units	2012 (a)	2013	2014
Net Power Sales (b)	GWh	(2,188)	(408)	
Net Fuel Purchases (b)(c)	Bcf	25.5	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 June 30, 2012.

	Units	2012 (a)	2013	2014
Energy sales contracts (b)	GWh	(9,905)	(9,387)	(4,306)
Related energy supply contracts (b)				
Energy purchases	GWh	6,904	5,196	1,916
Volumetric hedges (c)	GWh	212	270	74
Generation supply	GWh	1,703	3,049	2,234
Retail natural gas sales contracts	Bcf	(8.4)	(8.0)	(2.3)
Retail natural gas purchase contracts	Bcf	8.4	8.0	2.3

(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 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 June 30, 2012, PPL Energy Supply's proprietary trading positions, excluding FTR, basis and capacity contract activity that are 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 June 30, 2012.

	Units	2012 (a)	2013	2014
FTRs	GWh	24,818	19,308	232
Power Basis Positions (b)	GWh	(8,034)	(8,244)	(2,628)
Gas Basis Positions (b)	Bcf	11.7	(4.9)	(5.2)

(a) Represents the balance of the current year.
(b) Net volumes that deliver in future periods are (677) GWh and (5.5) 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. PPL Energy Supply also sells and purchases capacity for proprietary trading purposes. The following table presents the net volumes of derivative capacity (sales)/purchase contracts at June 30, 2012.

	Units	2012 (a)	2013	2014
Capacity (b)	MW-months	(6,184)	(7,075)	(2,786)

(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 issue 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 PPL's 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 range in maturity through 2023 and had a notional amount of $300 million at June 30, 2012. PPL Energy Supply had no such interest rate swap contracts outstanding at June 30, 2012.

PPL, on behalf of 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 and six months ended June 30, 2012, hedge ineffectiveness associated with interest rate derivatives was insignificant for PPL and PPL Energy Supply. For the three and six months ended June 30, 2011, hedge ineffectiveness associated with interest rate derivatives was an 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 the three and six months ended June 30, 2011, hedge ineffectiveness associated with interest rate derivatives was insignificant for 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 period 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, 2012 and 2011.

At June 30, 2012, 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. 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 June 30, 2012, PPL held contracts that range in maturity through 2047 and had a notional value of $99 million. In July 2012, these contracts were canceled without penalties by the counterparties. PPL Energy Supply did not hold any such contracts at June 30, 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 and six months ended June 30, 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 June 30, 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 $62 million and $60 million at June 30, 2012 and December 31, 2011 with equal offsetting amounts recorded as regulatory assets.

Foreign Currency Risk *(PPL)*

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. 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.

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 June 30, 2012 had a notional amount of £96 million (approximately $153 million based on contracted rates). The settlement dates of these contracts range from September 2012 through June 2013. The net fair value of these contracts at June 30, 2012 was insignificant and at December 31, 2011 was an asset (liability) of $7 million.

Additionally, a PPL Global subsidiary that has a U.S. dollar functional currency entered into a GBP intercompany loan payable with a PPL WEM subsidiary that has a GBP functional currency. The loan qualifies as a net investment hedge for the PPL Global subsidiary. As such, the foreign currency gains and losses on the intercompany loan for the PPL Global subsidiary are recorded to the foreign currency translation adjustment component of AOCI. At June 30, 2012, the intercompany loan outstanding was £28 million (approximately $43 million based on spot rates).

For the three and six months ended June 30, 2012 and 2011, PPL recognized insignificant amounts of net investment hedge gains and losses in the foreign currency translation adjustment component of AOCI. At June 30, 2012, PPL included $19 million of accumulated net investment hedge gains (losses), after tax, in the foreign currency translation adjustment component of AOCI, compared to $19 million of gains (losses), 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 and six months ended June 30, 2012 and 2011.

Fair Value Hedges

PPL held no foreign currency derivatives that qualified as fair value hedges during the three and six months ended June 30, 2012 and 2011.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At June 30, 2012, the total exposure hedged by PPL was approximately £1 billion and the net fair value of these positions was an asset (liability) of $12 million. These contracts had termination dates ranging from July 2012 through June 2014. Realized and unrealized gains (losses) on these contracts are included in "Other Income (Expense) - net" on the Statements of Income and were $25 million and $7 million for the three and six months ended June 30, 2012. At December 31, 2011, the total exposure hedged by PPL was £288 million and the net fair value of these positions was an asset (liability) of $11 million. Realized and unrealized gains (losses) were insignificant for the three and six months ended June 30, 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 to economically hedge the foreign currency exchange rate risk related to the repayment. These contracts were settled in April 2011. Realized and unrealized gains (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.

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 fair value of derivatives not designated as NPNS 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 that are recognized as regulatory assets. See Note 6 for amounts recorded in regulatory assets at June 30, 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.

	June 30, 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		$ 15		$ 5	$ 3	$ 3		$ 5
Cross-currency swaps	$ 1	2				2		
Foreign currency contracts	3		$ 8	3	7		$ 11	
Commodity contracts	91		2,380	1,570	872	3	1,655	1,557
Total current	95	17	2,388	1,578	882	8	1,666	1,562
Noncurrent:								
Price Risk Management Assets/Liabilities (b):								
Interest rate swaps				57				55
Cross-currency swaps	69				24			
Foreign currency contracts			8	1				
Commodity contracts	34	1	1,001	957	42	2	854	783
Total noncurrent	103	1	1,009	1,015	66	2	854	838
Total derivatives	$ 198	$ 18	$ 3,397	$ 2,593	$ 948	$ 10	$ 2,520	$ 2,400

(a) $455 million and $237 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at June 30, 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 $333 million and $527 million at June 30, 2012 and December 31, 2011. 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 following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets for the periods ended June 30, 2012.

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	$ 1	$ 2

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	$ (25)	$ (22)	Interest expense	$ (5)		$ (9)	
Cross-currency swaps	34	46	Interest expense			(1)	
			Other income (expense) - net	47		28	
Commodity contracts	(14)	99	Wholesale energy marketing	227	$ (5)	499	$ (1)
			Depreciation			1	
			Energy purchases	(45)	1	(85)	(3)
Total	$ (5)	$ 123		$ 224	$ (4)	$ 433	$ (4)
Net Investment Hedges:							
Foreign currency contracts	$ 2	$ (1)					

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Six Months
Foreign currency contracts	Other income (expense) - net	$ 25	$ 7
Interest rate swaps	Interest expense	(2)	(4)
Commodity contracts	Unregulated retail electric and gas	1	23
	Wholesale energy marketing	33	1,376
	Net energy trading margins (a)	13	22
	Fuel	(12)	(6)
	Energy purchases	(11)	(1,081)
	Total	$ 47	$ 337

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Six Months
Interest rate swaps	Regulatory assets - noncurrent	$ (9)	$ (3)

(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, 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 currency contracts		$ (1)					

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Six Months
Foreign currency 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.

(PPL Energy Supply)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	June 30, 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	$ 91		$ 2,380	$ 1,570	$ 872	$ 3	$ 1,655	$ 1,557
Total current	91		2,380	1,570	872	3	1,655	1,557
Noncurrent:								
Price Risk Management Assets/Liabilities (b):								
Commodity contracts	34	$ 1	1,001	957	42	2	854	783
Total noncurrent	34	1	1,001	957	42	2	854	783
Total derivatives	$ 125	$ 1	$ 3,381	$ 2,527	$ 914	$ 5	$ 2,509	$ 2,340

(a) $455 million and $237 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at June 30, 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 $405 million and $605 million at June 30, 2012 and December 31, 2011. 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.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the six months ended June 30, 2012.

	Derivative Gain (Loss) Recognized in OCI (Effective Portion)			Three Months		Six Months	
Derivative Relationships	Three Months	Six Months	Location of Gains (Losses) Recognized in Income	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Commodity contracts	$ (14)	$ 99	Wholesale energy marketing	$ 227	$ (5)	$ 499	$ (1)
			Depreciation	1		1	
			Energy purchases	(45)	1	(85)	(3)
Total	$ (14)	$ 99		$ 183	$ (4)	$ 415	$ (4)

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	$ 1	$ 23
	Wholesale energy marketing	33	1,376
	Net energy trading margins (a)	13	22
	Fuel	(12)	(6)
	Energy purchases	(11)	(1,081)
	Total	$ 24	$ 334

(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, 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.

(LKE and LG&E)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	June 30, 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				$ 5				$ 5
Total current				5				5
Noncurrent:								
Price Risk Management Assets/Liabilities (a):								
Interest rate swaps				57				55
Total noncurrent				57				55
Total derivatives				$ 62				$ 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 periods ended June 30, 2012.

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)

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Six Months
Interest rate swaps	Regulatory assets	$ (9)	$ (3)

The following tables present the pre-tax effect of derivative instruments recognized in income or regulatory assets for the periods ended June 30, 2011.

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	Operating revenues - retail and wholesale (a)	(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)

(a) Amounts are included in "Operating Revenues" for LKE.

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 June 30, 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	$ 167	$ 40	$ 40
Aggregate fair value of collateral posted on these derivative instruments	34	3	31	31
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	186	172	9	9

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

15. Goodwill

(PPL)

The change in the carrying amount of goodwill for the six months ended June 30, 2012 was primarily due to the effect of foreign currency exchange rates on the U.K. Regulated segment.

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
Balance at December 31, 2011	$ 497	$ 359	$ 118	$ 57	$ 61
Accretion expense	17	13	3	1	2
Changes in estimated cash flow or settlement date	2	2			
Obligations settled	(6)	(5)	(1)	(1)	
Balance at June 30, 2012	$ 510	$ 369	$ 120	$ 57	$ 63

Substantially all of the ARO balances are classified as noncurrent at June 30, 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 $304 million and $292 million at June 30, 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 PPL Susquehanna nuclear plant. The aggregate fair value of these assets was $681 million and $640 million at June 30, 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, 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 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.

(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.

	June 30, 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	$ 14			$ 14	$ 12			$ 12
Equity securities:								
U.S. large-cap	178	$ 139		317	173	$ 119		292
U.S. mid/small-cap	69	58		127	67	50		117
Debt securities:								
U.S. Treasury	86	10		96	76	10		86
U.S. government sponsored agency	9	1		10	9	1		10
Municipality	77	5	$ 1	81	80	4	$ 1	83
Investment-grade corporate	32	3		35	35	3		38
Other	2			2	2			2
Receivables/payables, net	(1)			(1)				
Total NDT funds	466	216	1	681	454	187	1	640
Auction rate securities	20		2	18	25		1	24
Total	$ 486	$ 216	$ 3	$ 699	$ 479	$ 187	$ 2	$ 664
PPL Energy Supply								
NDT funds:								
Cash and cash equivalents	$ 14			$ 14	$ 12			$ 12
Equity securities:								
U.S. large-cap	178	$ 139		317	173	$ 119		292
U.S. mid/small-cap	69	58		127	67	50		117
Debt securities:								
U.S. Treasury	86	10		96	76	10		86
U.S. government sponsored agency	9	1		10	9	1		10
Municipality	77	5	$ 1	81	80	4	$ 1	83
Investment-grade corporate	32	3		35	35	3		38
Other	2			2	2			2
Receivables/payables, net	(1)			(1)				
Total NDT funds	466	216	1	681	454	187	1	640
Auction rate securities	17		2	15	20		1	19
Total	$ 483	$ 216	$ 3	$ 696	$ 474	$ 187	$ 2	$ 659

There were no securities with credit losses at June 30, 2012 and December 31, 2011.

The following table shows the scheduled maturity dates of debt securities held at June 30, 2012.

	Maturity Less Than 1 Year	Maturity 1-5 Years	Maturity 5-10 Years	Maturity in Excess of 10 Years	Total
PPL					
Amortized cost	$ 5	$ 84	$ 61	$ 76	$ 226
Fair value	5	87	67	83	242
PPL Energy Supply					
Amortized cost	$ 5	$ 84	$ 61	$ 73	$ 223
Fair value	5	87	67	80	239

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	
	2012	2011	2012	2011
PPL				
Proceeds from sales of NDT securities (a)	$ 45	$ 25	$ 79	$ 100
Other proceeds from sales	5		5	163
Gross realized gains (b)	8	6	13	23
Gross realized losses (b)	5	6	6	11
PPL Energy Supply				
Proceeds from sales of NDT securities (a)	$ 45	$ 25	$ 79	$ 100
Other proceeds from sales	3		3	
Gross realized gains (b)	8	6	13	23
Gross realized losses (b)	5	6	6	11

(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 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)

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.

Testing Indefinite-Lived Intangible Assets for Impairment

Effective January 1, 2013, the Registrants will prospectively adopt accounting guidance that allows an entity to elect the option to first make a qualitative evaluation about the likelihood of an impairment of an indefinite-lived intangible asset. If, based on this assessment, the entity determines that it is more likely than not that the fair value of the indefinite-lived intangible asset exceeds the carrying amount, the fair value of that asset does not need to be calculated. If the entity concludes otherwise, a quantitative impairment test must be performed by determining the fair value of the asset and comparing it with the carrying value. The entity would record an impairment charge, if necessary.

Upon adoption, this guidance is 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 and six months ended June 30, 2012 with the same periods in 2011.

- "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 actions.

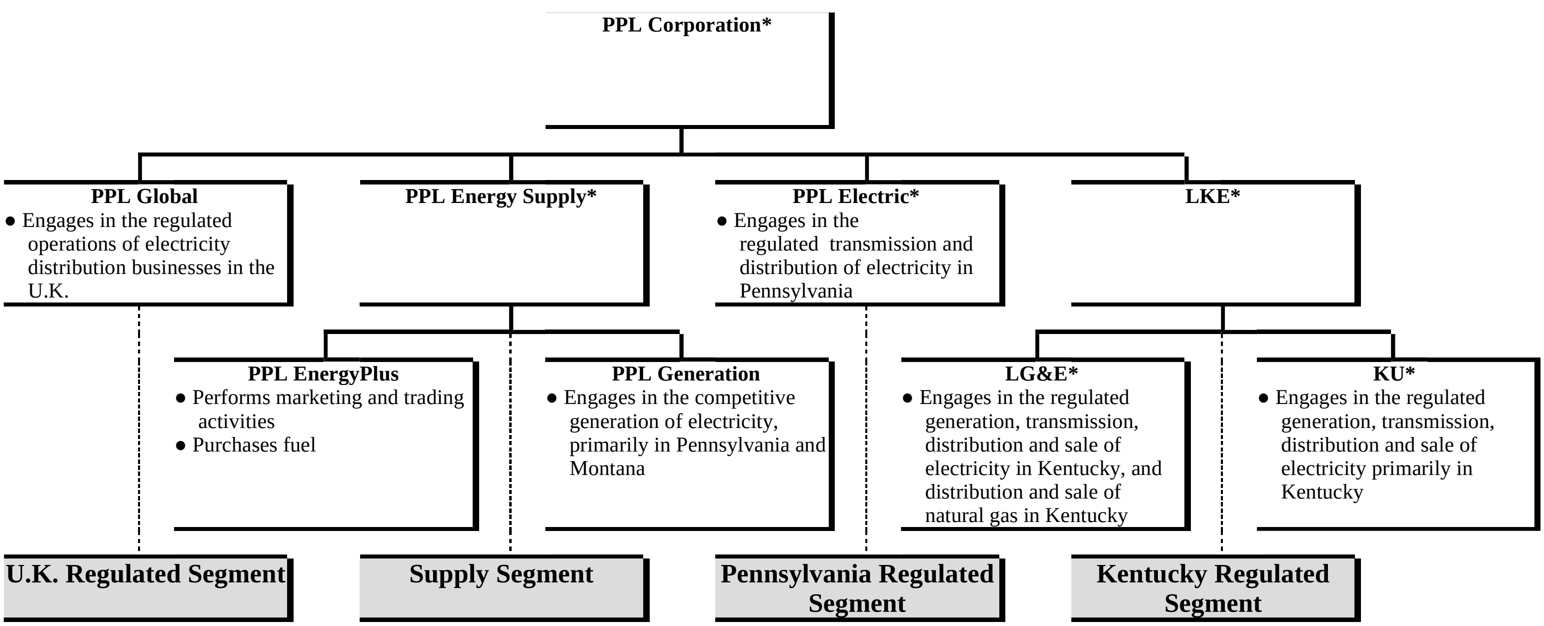
- "Financial Condition - Risk Management" provides an explanation of PPL's risk management programs relating to market and credit risk.

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. Results for periods prior to the acquisition of WPD Midlands are not comparable with, or indicative of, results for periods subsequent to the acquisition. The pro forma impacts of the acquisition of WPD Midlands on income from continuing operations (after income taxes) attributable to PPL for the six months ended June 30 are as follows.

	2011					
	Pro forma			Actual		
Regulated	$	506	62%	$	387	56%
Competitive		308	38%		308	44%
	$	814		$	695	

Note: Pro forma and actual amounts exclude non-recurring items identified in Note 8 to the Financial Statements.

With the acquisition 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 competitive 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 and six months ended June 30, 2012 was $271 million and $812 million compared to $196 million and $597 million for the same periods in 2011 representing a 38% and 36% increase over 2011. Net Income Attributable to PPL Corporation for the periods ended June 30 by segment was:

	Three Months				Six Months			
	2012		2011		2012		2011	
Kentucky Regulated	$	34	$	31	$	76	$	106
U.K. Regulated (a)		196		38		361		93
Pennsylvania Regulated		29		36		62		88
Supply		12		91		313		310
Net Income Attributable to PPL Corporation	$	271	$	196	$	812	$	597
EPS - basic	$	0.46	$	0.35	$	1.39	$	1.14
EPS - diluted	$	0.46	$	0.35	$	1.39	$	1.14

(a) WPD Midlands was acquired on April 1, 2011 and its results are recorded on a one-month lag. Therefore, the 2012 periods include three and six months of WPD Midlands' results while the 2011 periods both include two months of WPD Midlands' results.

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.

Economic and Market Conditions

Unregulated gross energy margins associated with PPL Energy Supply's competitive generation and marketing business are impacted by changes in market prices and demand for electricity and natural gas, power plant availability, competition in the markets for retail customers, fuel costs and availability, fuel transportation costs and other costs. Current depressed wholesale market prices for electricity and natural gas have resulted from general weak economic conditions and other factors, including the impact of expanded domestic shale gas development. As a result of these factors, PPL Energy Supply has experienced a shift in the dispatching of its competitive generation from coal-fired to combined-cycle gas-fired generation as illustrated in the following table:

	Average Utilization Factors (a)	
	2009 - 2011	**2012**
Pennsylvania coal plants	90%	63%
Montana coal plants	83%	50%
Combined-cycle gas plants	64%	96%

(a) All periods reflect the six months ending June 30.

This reduction in coal-fired generation output has resulted in a surplus of coal inventory at certain of PPL Energy Supply's Pennsylvania coal plants. To mitigate the risk of exceeding available coal storage, PPL Energy Supply incurred pre-tax charges of $12 million during the six months ended June 30, 2012 to reduce its 2012 contracted coal deliveries. Because coal purchases may also exceed expected fuel needs for 2013, PPL Energy Supply continues to manage its coal inventory to mitigate the financial impact and physical implications of an oversupply, including, but not limited to, contract modifications to reduce 2013 coal deliveries.

In addition, current economic and commodity market conditions indicate a lower value of unhedged future energy margins (primarily in 2014 and forward years) compared to the hedged energy margins in 2012. As has been PPL Energy Supply's practice in periods of changing business conditions, PPL Energy Supply continues to review its future business and operational plans, including capital and operation and maintenance expenditures, as well as its hedging strategies.

PPL's businesses are also subject to extensive federal, state and local environmental laws, rules and regulations. Although PPL Energy Supply's competitive generation assets are well positioned to meet these requirements, certain regulated generation assets at LG&E and KU will require substantial capital investment. See Note 15 to the Financial Statements in PPL's 2011 Form 10-K for additional information on these requirements. These requirements have resulted in LKE's anticipation of retiring six coal-fired units by 2015. See Notes 6 and 8 to the Financial Statements for additional information regarding the anticipated retirement of these units as well as certain regulatory approvals to build a NGCC facility.

In light of these economic and market conditions, as well as current and projected environmental regulatory requirements, PPL considered whether certain of its generating assets were impaired, and determined that no impairment charges were required at June 30, 2012. PPL is unable to predict whether future environmental requirements or market conditions will result in impairment charges or additional retirements.

PPL and its subsidiaries may also be impacted in future periods by the uncertainty in the worldwide financial and credit markets partially caused by the European sovereign debt crisis. In addition, PPL may be impacted by reductions in the credit ratings of financial institutions and evolving regulations in the financial sector. Collectively, these factors could reduce availability or restrict PPL and its subsidiaries' ability to maintain sufficient levels of liquidity, reduce capital market activities, change collateral posting requirements and increase the associated costs to PPL and its subsidiaries.

PPL cannot predict the future impact that these economic and market conditions and regulatory requirements may have on its financial condition or results of operations.

Ironwood Acquisition

In April 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the acquisition of the equity interests in the owner and operator of 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 June 30, 2012, which has been fully reserved. No assurance can be given as to the collectability of the receivable.

In July 2012, PPL EnergyPlus filed its proof of claim in the SMGT bankruptcy proceeding. The total claim is approximately $375 million, predominantly an unsecured claim representing the value for energy sales that will not occur as a result of the termination of the SMGT Contract.

PPL Energy Supply cannot predict any amounts that it may recover in connection with the SMGT bankruptcy or 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 its petition for rehearing of the Third Circuit's opinion. In March 2012, the Third Circuit denied PPL's petition. In June 2012, the U.S. Court of Appeals for the Fifth Circuit issued a contrary opinion in an identical case involving another company. In July 2012, PPL filed a petition for a writ of certiorari seeking U.S. Supreme Court review of the Third Circuit's opinion.

Terminated 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, pending receipt of applicable regulatory approvals. In May 2012, the KPSC issued an order approving the request to purchase the Bluegrass CTs. Also, in May 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to approval by the FERC of satisfactory mitigation measures to address market-power concerns. After a review of potentially available mitigation options, LG&E and KU determined that the options were not commercially justifiable. In June 2012, LG&E and KU terminated the asset purchase agreement for the Bluegrass CTs in accordance with its terms and made applicable filings with the KPSC and FERC. LG&E and KU are currently assessing the impact of the Bluegrass contract termination and potential future generation capacity options.

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 Kentucky. In May 2012, the KPSC issued an order approving the request. Subject to finalizing contracting agreements and permitting activities, construction is expected to begin in 2012 and be completed during 2015. The project, which includes building a natural gas supply pipeline and related transmission projects, has an estimated cost of approximately $600 million.

In conjunction with this construction and to meet new, stricter federal EPA regulations with a 2015 compliance date, 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 capacity rating of 797 MW. The Cane Run and Green River coal units are anticipated to remain operational until the NGCC generation and associated transmission project is completed.

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.

At June 30, 2012, PPL Electric's estimated share of the project cost has increased to $560 million from approximately $500 million at December 31, 2011, primarily due to increased material costs. In July 2012, PPL Electric began pre-construction activities including tree and vegetation removal from the transmission line's right of way and construction of access roads. See Note 8 in PPL's 2011 Form 10-K for additional information.

FERC Formula Rates

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 approximately $50 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 June 30, 2012 and December 31, 2011. In May 2012, the FERC issued an order approving PPL Electric's request effective June 1, 2012.

U.K. Tax Rate Change

In July 2012, the U.K. Finance Act 2012 (the Act) was enacted. The Act reduced the U.K.'s statutory income tax rate from 25% to 24%, effective April 1, 2012 and from 24% to 23%, effective April 1, 2013. 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 2012.

Ofgem Review of Line Loss Calculation

WPD has a $167 million liability recorded at June 30, 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 to be used by all network operators 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. In March 2012, Ofgem issued a decision regarding the preferred methodology. In July 2012, Ofgem issued a consultation paper regarding certain aspects of the preferred methodology as it relates to the DPCR4 line loss incentive/penalty and a proposal to delay the target date for making a final decision until April 2013 together with a proposal to remove the line loss incentive/penalty for DPCR5. PPL cannot predict the outcome of this matter.

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 591 thousand 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 591 thousand shares of PPL 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 Note 7 to the Financial Statements for additional information.

Redemption of PPL Electric Preference Stock

In June 2012, PPL Electric redeemed all 2.5 million shares of its 6.25% Series Preference Stock, par value $100 per share. The price paid for the redemption was the par value, without premium ($250 million in the aggregate). At December 31, 2011, the preference stock was reflected in "Noncontrolling Interests" on PPL's Balance Sheet.

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 and six months ended June 30, 2012 with the same periods in 2011.

On April 1, 2011, PPL, through its subsidiary PPL WEM, completed its acquisition of WPD Midlands. As PPL consolidates WPD Midlands on a one-month lag, consistent with its accounting policy on consolidation of foreign subsidiaries, two months of WPD Midlands' results of operations are included in PPL's results for the 2011 periods. When discussing PPL's results of operations for 2012 compared with 2011, the results of WPD Midlands (which includes PPL WEM for this purpose) 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 for the periods ended June 30 includes the following results:

	Three Months			Six Months		
	2012	2011	% Change	2012	2011	% Change
Utility revenues	$ 658	$ 638	3	$ 1,363	$ 1,404	(3)
Fuel	215	206	4	428	421	2
Energy purchases	34	40	(15)	108	147	(27)
Other operation and maintenance	197	198	(1)	403	379	6
Depreciation	86	84	2	172	165	4
Taxes, other than income	12	9	33	23	18	28
Total operating expenses	544	537	1	1,134	1,130	
Other Income (Expense) - net	(7)		n/a	(10)	(1)	900
Interest Expense (a)	54	54		109	108	1
Income Taxes	13	16	(19)	28	59	(53)
Income (Loss) from Discontinued Operations	(6)		n/a	(6)		n/a
Net Income Attributable to PPL Corporation	$ 34	$ 31	10	$ 76	$ 106	(28)

(a) Includes allocated interest expense of $17 million and $34 million for the three and six months ended June 30, 2012 and $17 million and $35 million for the three and six months ended June 30, 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 reflect reclassifications for items included in gross margins and certain items that management considers special. See additional detail of these special items in the table below.

	Three Months	Six Months
Kentucky gross margins	$ 12	$ (16)
Other operation and maintenance	4	(17)
Depreciation	(1)	(5)
Taxes, other than income	(3)	(5)
Other Income (Expense) - net	(7)	(9)
Other		(2)
Income Taxes	3	25
Special items, after-tax	(5)	(1)
Total	$ 3	$ (30)

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

- Higher other operation and maintenance for the six-month period, primarily due to $11 million of higher steam maintenance costs resulting from an increased scope of scheduled plant outages. Also, a $6 million credit was recorded in 2011 to establish a regulatory asset related to 2009 storm costs.

- Lower other income (expense) - net for the three and six-month periods, primarily due to equity losses from an unconsolidated affiliate.

- Lower income taxes for the six-month period, 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 during the periods ended June 30.

	Income Statement Line Item	Three Months 2012	Three Months 2011	Six Months 2012	Six Months 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	
Other:					
LKE discontinued operations, net of tax of $4, $0, $4, $0 (a)	Disc. Operations	$ (5)		(5)	
Total		$ (5)		$ (1)	

(a) Represents an adjustment to an indemnification liability.

Outlook

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

In June 2012, LG&E and KU filed requests with the KPSC for increases in annual base electric rates of approximately $62 million at LG&E and approximately $82 million at KU and an increase in annual base gas rates of approximately $17 million at LG&E. The proposed base rate increases would result in electric rate increases of 6.9% at LG&E and 6.5% at KU and a gas rate increase of 7.0% at LG&E and would be effective in January 2013. LG&E's and KU's applications include requests for authorized returns-on-equity at LG&E and KU of 11% each. A hearing on these matters is expected to be scheduled during the fourth quarter of 2012. LG&E and KU cannot predict the outcome of these proceedings.

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 for the periods ended June 30 includes the following results:

	Three Months			Six Months		
	2012	**2011**	**% Change**	**2012**	**2011**	**% Change**
Utility revenues	$ 209	$ 203	3	$ 437	$ 419	4
Energy-related businesses	8	10	(20)	18	19	(5)
Total operating revenues	217	213	2	455	438	4
Other operation and maintenance	52	49	6	107	91	18
Depreciation	33	32	3	64	62	3
Taxes, other than income	12	13	(8)	26	26	
Energy-related businesses	6	4	50	11	8	38
Total operating expenses	103	98	5	208	187	11
Other Income (Expense) - net	31	5	520	10	3	233
Interest Expense (a)	46	58	(21)	93	98	(5)
Income Taxes	21	8	163	40	28	43
WPD Midlands, net of tax (b)	118	65	82	241	65	271
WPD Midlands acquisition-related adjustments, net of tax		(81)	(100)	(4)	(100)	(96)
Net Income Attributable to PPL Corporation	$ 196	$ 38	416	$ 361	$ 93	288

(a) Includes allocated interest expense of $11 million and $23 million for the three and six months ended June 30, 2012 and $14 million for both the three and six months ended June 30, 2011, related primarily to the 2011 Equity Units.

(b) 2012 represents the operations of WPD Midlands for the three and six months ended June 30, 2012 and 2011 represents the operations of WPD Midlands for the period from the April 1, 2011 acquisition date through June 30, 2011, recorded on a one month lag. These amounts exclude acquisition-related adjustments. WPD Midlands' revenue from external customers was $340 million and $664 million for the three and six months ended June 30, 2012 and $207 million in the same periods of 2011.

The changes in the components of the U.K. Regulated segment's results between these periods were due to the following factors, which reflect reclassifications for certain items that management considers special. See additional detail of these special items in the table below. The amounts for PPL WW and WPD Midlands 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	$ 12	$ 26
Other operation and maintenance	(9)	(19)
Interest expense	8	11
Other	1	(2)
Income taxes	6	4
WPD Midlands, after-tax	56	184
U.S.		
Interest expense	3	(13)
Other	(1)	
Income taxes	(11)	(14)
Foreign currency exchange rates, after-tax (a)	(3)	(7)
Special items, after-tax	96	98
Total	$ 158	$ 268

(a) Includes the effect of realized gains/(losses) on earnings hedges.

PPL WW

- Higher utility revenues for the three-month period due to the April 1, 2011 and 2012 price increases which resulted in $19 million of higher utility revenues, partially offset by $4 million of lower regulatory recovery due to a 2012 charge to income for the over-recovery of revenues from customers, compared to a credit to income in 2011.

  Higher utility revenues for the six-month period due to the April 1, 2011 and 2012 price increases which resulted in $55 million of higher utility revenues, partially offset by $15 million of lower volumes due primarily to a downturn in the economy and weather and $11 million of lower regulatory recovery due to a 2012 charge to income for the over-recovery of revenues from customers, compared to a credit to income in 2011.

- Higher other operation and maintenance expense for the three-month period due to $5 million of higher pension expense resulting from an increase in amortization of actuarial losses and $4 million of higher network maintenance expense.

  Higher other operation and maintenance expense for the six-month period due to $10 million of higher pension expense resulting from an increase in amortization of actuarial losses and $6 million of higher network maintenance expense.

- Lower interest expense for the three and six-month periods primarily due to lower interest expense on index-linked notes.

- Lower income taxes for the three and six-month periods due to $7 million and $5 million of favorable adjustments related to uncertain tax positions.

U.S.

- Higher interest expense for the six-month period primarily due to $13 million of higher interest expense associated with the 2011 Equity Units issued to finance the WPD Midlands acquisition.

- Higher income taxes for the three and six-month periods due to a $7 million and $14 million of tax benefits 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 U.K. Regulated segment's results during the periods ended June 30.

	Income Statement Line Item	Three Months 2012	Three Months 2011	Six Months 2012	Six Months 2011
Special items gains (losses), net of tax (expense) benefit:					
Foreign currency-related economic hedges, net of tax of ($8), ($1), ($1), $0 (a)	Other Income-net	$ 16	$ 1	$ 2	
WPD Midlands acquisition-related adjustments:					
2011 Bridge Facility costs, net of tax of $0, $11, $0, $13 (b)	Interest Expense		(25)		$ (30)
Foreign currency loss on 2011 Bridge Facility, net of tax of $0, $19, $0, $19 (c)	Other Income-net		(39)		(39)
Net hedge gains, net of tax of $0, ($20), $0, ($17) (c)	Other Income-net		43		39
Hedge ineffectiveness, net of tax of $0, $3, $0, $3 (d)	Interest Expense		(9)		(9)
U.K. stamp duty tax, net of tax of $0, $0, $0, $0 (e)	Other Income-net		(21)		(21)
Separation benefits, net of tax of $0, $2, $2, $2	Other O&M	(4)	(4)	(8)	(4)
Other acquisition-related adjustments, net of tax of ($1), $10, ($1), $10	(f)	4	(26)	4	(36)
Total		$ 16	$ (80)	$ (2)	$ (100)

(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.
(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 Note 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) 2011 primarily represents advisory, accounting and legal fees which are reflected in "Other Income (Expense) - net" on the Statements of Income.

Outlook

Excluding special items, 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.

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>Pennsylvania Regulated Segment</u>

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

Net Income Attributable to PPL Corporation for the periods ended June 30 includes the following results:

	Three Months 2012	Three Months 2011	Three Months % Change	Six Months 2012	Six Months 2011	Six Months % Change
Operating revenues						
External	$ 403	$ 436	(8)	$ 860	$ 990	(13)
Intersegment	1	4	(75)	2	8	(75)
Total operating revenues	404	440	(8)	862	998	(14)
Energy purchases						
External	120	169	(29)	273	420	(35)
Intersegment	17	4	325	38	10	280
Other operation and maintenance	143	126	13	283	256	11
Depreciation	39	37	5	78	70	11
Taxes, other than income	22	22		48	57	(16)
Total operating expenses	341	358	(5)	720	813	(11)
Other Income (Expense) - net	1	1		3	1	200
Interest Expense	24	24		48	48	
Income Taxes	11	19	(42)	31	42	(26)
Net Income	29	40	(28)	66	96	(31)
Net Income Attributable to Noncontrolling Interests		4	(100)	4	8	(50)
Net Income Attributable to PPL Corporation	$ 29	$ 36	(19)	$ 62	$ 88	(30)

The changes in the components of the Pennsylvania Regulated segment's results between these periods were due to the following factors, which reflect reclassifications for items included in gross delivery margins.

	Three Months	Six Months
Pennsylvania gross delivery margins	$ 3	$ (10)
Other operation and maintenance	(19)	(25)
Depreciation	(2)	(8)
Other	(1)	2
Income Taxes	8	11
Noncontrolling Interests	4	4
Total	$ (7)	$ (26)

- 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 for the three-month period, primarily due to $6 million of higher payroll and benefit related costs, $6 million of higher vegetation management costs and $3 million of higher corporate service costs.

  Higher other operation and maintenance expense for the six-month period, primarily due to $8 million of higher payroll and benefit related costs, $8 million of higher vegetation management costs and $5 million of higher corporate service costs.

- Higher depreciation expense for the six-month period, primarily due to the impact of PP&E additions related to the ongoing efforts to ensure the reliability of the delivery system, and replace aging infrastructure.

- Lower income taxes for the three and six-month periods, primarily due to the change in pre-tax income, which reduced income taxes by $7 million and $16 million.

- Lower noncontrolling interests for the three and six-month periods due to the preference stock redemption in June 2012.

Outlook

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, lower financing costs, and lower income taxes.

In March 2012, PPL Electric filed a request with the PUC to increase distribution rates by approximately $105 million. The proposed distribution revenue rate increase would result in a 2.9% increase over PPL Electric's total rates at the time of filing and be effective January 1, 2013. PPL Electric's application includes a request for an authorized return-on-equity of 11.25%. Hearings on this matter are scheduled during August 2012 and a decision is expected in the fourth quarter of 2012. 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 for the periods ended June 30 includes the following results:

	Three Months			Six Months		
	2012	2011	% Change	2012	2011	% Change
Energy revenues						
External (a)	$ 816	$ 879	(7)	$ 3,106	$ 2,132	46
Intersegment	17	4	325	38	10	280
Energy-related businesses	115	116	(1)	213	228	(7)
Total operating revenues	948	999	(5)	3,357	2,370	42
Fuel (a)	196	208	(6)	407	468	(13)
Energy purchases						
External (a)	191	116	65	1,438	411	250
Intersegment			n/a	1	1	
Other operation and maintenance	287	283	1	535	516	4
Depreciation	76	64	19	148	128	16
Taxes, other than income	17	15	13	35	31	13
Energy-related businesses	113	116	(3)	210	225	(7)
Total operating expenses	880	802	10	2,774	1,780	56
Other Income (Expense) - net	4	4		9	19	(53)
Other-Than-Temporary Impairments	1		n/a	1	1	
Interest Expense	53	51	4	101	100	1
Income Taxes	6	58	(90)	177	200	(12)
Income (Loss) from Discontinued Operations		(1)	(100)		2	(100)
Net Income Attributable to PPL Corporation	$ 12	$ 91	(87)	$ 313	$ 310	1

(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 reflect reclassifications for items included in unregulated gross energy margins and certain items that management considers special. See additional detail of these special items in the table below.

	Three Months	Six Months
Unregulated gross energy margins		$ (87)
Other operation and maintenance	$ (8)	(19)
Depreciation	(12)	(20)
Other Income (Expense) - net	(2)	(12)
Other	(4)	(6)
Income Taxes	8	73
Discontinued operations, after-tax		3
Special items, after-tax	(61)	71
Total	$ (79)	$ 3

- 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 for the three and six-month periods in part due to $11 million and $17 million of higher costs at PPL Susquehanna, including refueling outage costs, payroll-related costs and timing of projects.

- Higher depreciation expense for the three and six-month periods due to the impact of PP&E additions.

- Lower other income (expense) - net for the six-month period primarily due to lower earnings on securities in the NDT funds.

- Lower income taxes for the three and six-month periods primarily due to lower pre-tax income, which reduced income taxes by $5 million and $46 million. The six-month period was also lower due to an $11 million deferred tax benefit from a state tax rate adjustment recorded in 2012 and $11 million of Pennsylvania net operating loss valuation allowance adjustments which negatively impacted 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 during the periods ended June 30.

	Income Statement Line Item	Three Months 2012	Three Months 2011	Six Months 2012	Six Months 2011
Special items gains (losses), net of tax (expense) benefit:					
Adjusted energy-related economic activity, net, net of tax of $23, $2, ($79), ($10)	(a)	$ (32)	$ (3)	$ 118	$ 14
Impairments:					
Emission allowances, net of tax of $0, $0, $0, $1	Other O&M				(1)
Renewable energy credits, net of tax of $0, $0, $0, $2	Other O&M				(2)
Adjustments - nuclear decommissioning trust investments, net of tax of ($1), $0, ($2), ($1)	Other Income-net			1	1
LKE acquisition-related adjustments:					
Sale of certain non-core generation facilities, net of tax of $0, $1, $0, $0	Disc. Operations		(2)		(3)
Other:					
Montana hydroelectric litigation, net of tax of $0, $0, $0, $1	Interest Expense		(1)		(1)
Litigation settlement - spent nuclear fuel storage, net of tax of $0, ($21), $0, ($21) (b)	Fuel		29		29
Counterparty bankruptcy, net of tax of $0, $0, $5, $0 (c)	Other O&M			(6)	
Wholesale supply cost reimbursement, net of tax of $0, $0, $0, $0	(d)	1		1	
Ash basin leak remediation adjustment, net of tax of $0, $0, ($1), $0	Other O&M			1	
Coal contract modification payments, net of tax of $5, $0, $5, $0 (e)	Fuel	(7)		(7)	
Total		$ (38)	$ 23	$ 108	$ 37

(a) See "Reconciliation of Economic Activity" below.
(b) 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 September 2009.
(c) In October 2011, a wholesale customer, SMGT, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy code. In 2012, PPL EnergyPlus recorded an additional 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.
(d) Recorded in "Wholesale energy marketing - Realized" on the Statement of Income.
(e) As a result of lower electricity and natural gas prices, coal unit runtimes have decreased. Contract modification payments were incurred to reduce the contracted coal quantities scheduled for delivery.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) for the periods ended June 30, 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 2012	Three Months 2011	Six Months 2012	Six Months 2011
Operating Revenues				
Unregulated retail electric and gas	$ (12)	$ 1	$ (2)	$ 5
Wholesale energy marketing	(458)	(44)	394	13
Operating Expenses				
Fuel	(16)	(11)	(14)	12
Energy Purchases	442	109	(149)	127
Energy-related economic activity (a)	(44)	55	229	157
Option premiums (b)	1	6	1	11
Adjusted energy-related economic activity	(43)	61	230	168
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010	12	66	33	144
Adjusted energy-related economic activity, net, pre-tax	$ (55)	$ (5)	$ 197	$ 24
Adjusted energy-related economic activity, net, after-tax	$ (32)	$ (3)	$ 118	$ 14

(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, primarily driven by lower energy margins as a result of lower energy and capacity prices, higher fuel costs, higher operation and maintenance expense, and higher depreciation. See "Overview" for a discussion on economic and market conditions.

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

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" and "Depreciation." 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. 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 adjusted 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.

	2012 Three Months					2011 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	$ 658	$ 403		$ 544 (c)	$ 1,605	$ 639	$ 436		$ 409 (c)	$ 1,484
PLR intersegment utility revenue (expense) (d)		(17)	$ 17				(4)	$ 4		
Unregulated retail electric and gas			192	(13)	179			180	1	181
Wholesale energy marketing										
Realized			1,075	8 (f)	1,083			716	16 (f)	732
Unrealized economic activity				(458)(g)	(458)				(44)(g)	(44)
Net energy trading margins			10		10			10		10
Energy-related businesses				130	130				126	126
Total Operating Revenues	658	386	1,294	211	2,549	639	432	910	508	2,489
Operating Expenses										
Fuel	215		170	26 (e)	411	206		250	(42)(e)	414
Energy purchases										
Realized	34	120	617	16 (f)	787	40	169	150	75 (f)	434
Unrealized economic activity				(442)(g)	(442)				(109)(g)	(109)
Other operation and maintenance	24	26	7	682	739	21	29	9	664	723
Depreciation	13			258	271	12			225	237
Taxes, other than income		20	7	60	87		20	7	48	75
Energy-related businesses				124	124				120	120
Intercompany eliminations		(1)		1			(4)	1	3	
Total Operating Expenses	286	165	801	725	1,977	279	214	417	984	1,894
Total	$ 372	$ 221	$ 493	$ (514)	$ 572	$ 360	$ 218	$ 493	$ (476)	$ 595

	2012 Six Months					2011 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	$ 1,363	$ 860		$ 1,096 (c)	$ 3,319	$ 1,404	$ 990		$ 626 (c)	$ 3,020
PLR intersegment utility revenue (expense) (d)		(38)	$ 38				(10)	$ 10		
Unregulated retail electric and gas			406	(4)	402			323	5	328
Wholesale energy marketing										
Realized			2,279	12 (f)	2,291			1,738	32 (f)	1,770
Unrealized economic activity				394 (g)	394				13 (g)	13
Net energy trading margins			18		18			21		21
Energy-related businesses				237	237				247	247
Total Operating Revenues	1,363	822	2,741	1,735	6,661	1,404	980	2,092	923	5,399
Operating Expenses										
Fuel	428		385	22 (e)	835	421		534	(66)(e)	889
Energy purchases										
Realized	108	273	1,251	38 (f)	1,670	147	420	377	161 (f)	1,105
Unrealized economic activity				149 (g)	149				(127)(g)	(127)
Other operation and maintenance	46	49	11	1,339	1,445	41	47	13	1,205	1,306
Depreciation	26			509	535	24			421	445
Taxes, other than income		44	16	118	178		53	14	81	148
Energy-related businesses				226	226				233	233
Intercompany eliminations		(2)	1	1			(8)	2	6	
Total Operating Expenses	608	364	1,664	2,402	5,038	633	512	940	1,914	3,999
Discontinued operations								12	(12)(h)	
Total	$ 755	$ 458	$ 1,077	$ (667)	$ 1,623	$ 771	$ 468	$ 1,164	$ (1,003)	$ 1,400

(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) Includes economic activity related to fuel as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements. The three and six months ended June 30, 2012, includes a pre-tax loss of $12 million related to coal contract modification payments. The three and six months ended June 30, 2011 includes a pre-tax credit of $50 million for the spent nuclear fuel litigation settlement.
(f) 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 six months ended June 30, 2012, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" include net pre-tax losses of $12 million and $33 related to the monetization of certain full-requirement sales contracts and net pre-tax gains of $1 million and $1 million related to the amortization of option premiums. The three and six months ended June 30, 2011 include net pre-tax losses of $66 million and $144 million related to the monetization of certain full-requirement sales contracts and net pre-tax gains of $6 million and $11 million related to the amortization of option premiums.
(g) 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.
(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		
	2012	**2011**	**Change**	**2012**	**2011**	**Change**
Kentucky Gross Margins	$ 372	$ 360	$ 12	$ 755	$ 771	$ (16)
PA Gross Delivery Margins by Component						
Distribution	$ 170	$ 173	$ (3)	$ 359	$ 381	$ (22)
Transmission	51	45	6	99	87	12
Total	$ 221	$ 218	$ 3	$ 458	$ 468	$ (10)
Unregulated Gross Energy Margins by Region						
Non-trading						
Eastern U.S.	$ 407	$ 395	$ 12	$ 896	$ 972	$ (76)
Western U.S.	76	88	(12)	163	171	(8)
Net energy trading	10	10		18	21	(3)
Total	$ 493	$ 493	$	$ 1,077	$ 1,164	$ (87)

Kentucky Gross Margins

Margins increased for the three-month period ended June 30, 2012, compared with 2011, due to $12 million of higher retail margins, as volumes were impacted by increases in production levels at some of LKE's larger industrial customers and warmer weather during the three months ended June 30, 2012. Total cooling degree days increased 9% compared to the same period in 2011.

Margins decreased for the six-month period ended June 30, 2012, compared with 2011, primarily due to $13 million of lower retail margins, as volumes were impacted by unseasonably mild weather during the first four months of 2012, and $3 million of lower wholesale margins, as volumes were impacted by lower market prices. Total heating degree days decreased 24% compared to the same period in 2011.

Pennsylvania Gross Delivery Margins

Distribution

Margins decreased for the three and six month periods ended June 30, 2012, compared with 2011, due primarily to the effects of weather.

Transmission

Margins increased for the three and six month periods ended June 30, 2012, compared with 2011, 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 non-trading margins for the periods ended June 30, 2012 compared with 2011 were due to:

	Three Months	Six Months
Baseload energy and capacity prices (a)	$ (51)	$ (137)
Intermediate and peaking energy and capacity (b)	(5)	(26)
Full-requirement sales contracts	(9)	(14)
Impact of non-core generation facilities sold in the first quarter of 2011		(12)
Ironwood Acquisition which eliminates tolling expense (c)	13	13
Net coal and hydroelectric unit availability (d)	9	19
Nuclear generation volume (e)	57	82
Other	(2)	(1)
	$ 12	$ (76)

(a) Energy prices and capacity prices were lower in both periods of 2012.
(b) Capacity prices were lower in both periods of 2012.
(c) See Note 8 to the Financial Statements for additional information.
(d) Coal unit availability was higher in both periods allowing the capture of additional margins.
(e) For the three and six month periods, volumes were higher due to a shorter outage period for blade inspections and an uprate in the third quarter of 2011. For the six month period, volumes were also higher due to an unplanned outage in March 2011.

Western U.S.

Non-trading margins for the three and six months ended June 30, 2012, compared with the same periods in 2011 were lower primarily due to $14 million related to the bankruptcy of SMGT.

Utility Revenues

The increase (decrease) in utility revenues for the periods ended June 30, 2012 compared with 2011 was due to:

	Three Months	Six Months
Domestic:		
PPL Electric (a)	$ (33)	$ (130)
LKE (b)	20	(41)
Total Domestic	(13)	(171)
U.K.:		
PPL WW		
Price (c)	19	55
Volume (d)	(2)	(15)
Recovery of allowed revenues (e)	(4)	(11)
Foreign currency exchange rates	(5)	(8)
Other	(2)	(3)
Total PPL WW	6	18
WPD Midlands (f)	128	452
Total U.K.	134	470
Total	$ 121	$ 299

(a) See "Pennsylvania Gross Delivery Margins" for further information.
(b) See "Kentucky Gross Margins" for further information.
(c) The increase for the three and six-month periods is primarily due to price increases effective April 1, 2012 and 2011.
(d) The decrease for the six-month period is primarily due to the downturn in the economy and weather.
(e) The decrease for the three and six-month periods is primarily due to a 2012 charge to income for the over-recovery of revenues from customers, compared to a credit to income in 2011.
(f) Periods are not comparable. The periods ended June 30, 2012 include three and six months of WPD Midlands' results, compared with two months for the same periods in 2011.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense for the periods ended June 30, 2012 compared with 2011 were due to:

	Three Months	Six Months
Domestic:		
Uncollectible accounts (a)	$ 4	$ 18
LKE steam maintenance plant costs (b)		11
LKE storm costs (c)		6
PPL Susquehanna nuclear plant costs (d)	11	17
Vegetation management	6	9
Stock based compensation		8
Other		8
U.K.:		
PPL WW (e)	7	17
WPD Midlands (f)	(12)	45
Total	$ 16	$ 139

(a) In October 2011, SMGT filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. The increase for the six-month period 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 credit to establish a regulatory asset was recorded in the first quarter of 2011 related to 2009 storm costs.
(d) Primarily due to refueling outage costs, payroll costs and timing of projects.
(e) Increase for the three and six-month periods includes $5 million and $10 million of higher pension expense resulting from the amortization of actuarial losses and $4 million and $6 million of higher network maintenance expense.
(f) Periods are not comparable. The periods ended June 30, 2012 include three and six months of WPD Midlands' results, compared with two months for the same periods in 2011. The decrease for the three-month period was primarily due to the impact of acquisition-related adjustments.

Depreciation

The increase (decrease) in depreciation expense for the periods ended June 30, 2012 compared with 2011 was due to:

	Three Months	Six Months
Additions to PP&E	$ 13	$ 33
WPD Midlands (a)	17	53
Ironwood Acquisition	4	4
Total	$ 34	$ 90

(a) Periods are not comparable. The periods ended June 30, 2012 include three and six months of WPD Midlands' results, compared with two months for the same periods in 2011.

Taxes, Other Than Income

The increase (decrease) in taxes, other than income for the periods ended June 30, 2012 compared with 2011 was due to:

	Three Months	Six Months
Pennsylvania gross receipts tax (a)	$ (5)	$ (12)
Domestic property tax	5	5
WPD Midlands (b)	8	30
Other	4	7
Total	$ 12	$ 30

(a) The decrease for the three and six month periods was primarily due to a decrease in taxable electric revenue. This tax is included in "Unregulated Gross Energy Margins" and "Pennsylvania Gross Delivery Margins".
(b) Periods are not comparable. The periods ended June 30, 2012 include three and six months of WPD Midlands' results, compared with two months for the same periods in 2011.

Other Income (Expense) - net

The $64 million increase in other income (expense) - net for the three months ended June 30, 2012 compared with 2011 was primarily due to:

- $47 million of other WPD Midlands acquisition-related adjustments in 2011;
- a $23 million increase in gains from economic foreign currency exchange contracts; 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 contracts that hedged the repayment of such borrowings, both in 2011.

The $52 million increase in other income (expense) - net for the six months ended June 30, 2012 compared with 2011 was primarily due to:

- $57 million of other WPD Midlands acquisition-related adjustments in 2011;
- a $7 million increase in gains from economic foreign currency exchange contracts; and
- a $58 million foreign currency loss related to the repayment of the 2011 Bridge Facility borrowing partially offset by a $55 million gain on foreign currency contracts that hedged the repayment of such borrowings, both in 2011.

See Note 12 to the Financial Statements for further details.

Interest Expense

The increase (decrease) in interest expense for the periods ended June 30, 2012 compared with 2011 was due to:

	Three Months	Six Months
2011 Bridge Facility costs related to financing the acquisition of WPD Midlands	$ (36)	$ (43)
2011 Equity Units (a)	1	13
Interest rates (excluding 2011 Equity Units) (b)	(15)	(26)
Debt balances (excluding 2011 Equity Units) (c)	13	17
WPD Midlands (d)	12	68
Inflation adjustment on U.K. Index-linked Senior Unsecured Notes	(5)	(8)
Hedging activity and ineffectiveness	10	19
Ironwood Acquisition (Note 8)	4	4
Other	(12)	(16)
Total	$ (28)	$ 28

(a) Interest related to the issuance in April 2011 to support the WPD Midlands acquisition.
(b) Short-term weighted average rates were 0.69% and 0.73% for the three and six months ended June 30, 2012, compared with 1.82% and 2.02% for the same periods in 2011. Long-term weighted average rates of 4.69% at June 30, 2012, compared with 4.94% at June 30, 2011.
(c) Short-term debt balances were $420 million and $83 million higher for the three and six months ended June 30, 2012, compared with the same periods in 2011. The long-term debt balance (excluding $255 million of long-term debt balance from the April 2012 Ironwood Acquisition) was $520 million higher at June 30, 2012, compared with the same period in 2011.
(d) Periods are not comparable. The periods ended June 30, 2012 include three and six months of WPD Midlands' results, compared with two months for the same periods in 2011.

Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2012 compared with 2011 was due to:

	Three Months	Six Months
Lower pre-tax book income	$ (30)	$ (23)
State valuation allowance adjustments (a)		(11)
Federal and state tax reserve adjustments	(2)	(2)
Federal and state tax return adjustments	(1)	2
U.S. income tax on foreign earnings net of foreign tax credit (b)	10	18
Foreign tax reserve adjustments (c)	(8)	(5)
Net operating loss carryforward adjustments (d)	(3)	(9)
Depreciation not normalized (a)		2
WPD Midlands (e)	27	61
State deferred tax rate change (f)		(11)
Other	(1)	6
Total	$ (8)	$ 28

(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 decrease in projected taxable income related to bonus depreciation, PPL recorded state deferred income tax expense during the six months ended June 30, 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 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.

(c) During the three and six months ended June 30, 2012, PPL recorded a tax benefit following resolution of a U.K. tax issue related to interest expense.
(d) During the three and six months ended June 30, 2012, PPL recorded adjustments to deferred taxes related to net operating loss carryforwards of LKE based on income tax return adjustments.
(e) Periods are not comparable. The periods ended June 30, 2012 include three and six months of WPD Midlands' results compared with two months for the same periods in 2011.
(f) During the six months ended June 30, 2012, PPL recorded an adjustment related to state deferred tax liabilities.

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

Noncontrolling Interests

"Net Income Attributable to Noncontrolling Interests" decreased by $4 million for the three and six months ended June 30, 2012 compared with 2011. The decrease is due to PPL Electric's June 2012 redemption of all 2.5 million shares of its preference stock. The price paid was the par value, without premium ($250 million in the aggregate).

Financial Condition

Liquidity and Capital Resources

PPL had the following at:

	June 30, 2012	December 31, 2011
Cash and cash equivalents	$ 981	$ 1,202
Short-term investments		16
	$ 981	$ 1,218
Short-term debt	$ 889	$ 578

At June 30, 2012, $357 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 $221 million decrease in PPL's cash and cash equivalents position was primarily the net result of:

- capital expenditures of $1.3 billion;
- the payment of $413 million of common stock dividends;
- the redemption of preference stock of a subsidiary of $250 million;
- the Ironwood Acquisition for $84 million, net of cash acquired;
- net cash provided by operating activities of $947 million;
- proceeds of $575 million from the issuance of long-term debt; and
- a net increase in short-term debt of $311 million.

PPL's cash provided by operating activities increased by $133 million for the six months ended June 30, 2012 compared with 2011. The increase was the net effect of:

- an increase of $211 million in net income (primarily from the U.K. Regulated segment); and
- a decrease of $57 million in defined benefit plan funding; partially offset by
- an increase in cash used by components of working capital of $117 million.

Credit Facilities

PPL maintains credit facilities to provide liquidity and to backstop commercial paper issuances. At June 30, 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		$ 790	$ 2,410
PPL Electric Credit Facilities (a)	450		196	254
LG&E Credit Facility	400			400
KU Credit Facilities	598		198	400
Total Domestic Credit Facilities (b)	$ 4,648		$ 1,184	$ 3,464
PPL WW Credit Facility (c)	£ 150	£ 110	n/a	£ 40
WPD (South West) Credit Facility (d)	245		n/a	245
WPD (East Midlands) Credit Facility	300			300
WPD (West Midlands) Credit Facility	300			300
Total WPD Credit Facilities (e)	£ 995	£ 110		£ 885

(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 June 30, 2012, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under the facility was limited to $87 million. In July 2012, PPL Electric and the subsidiary extended this agreement to September 2012 and reduced the capacity to $100 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) The borrowing outstanding at June 30, 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%.

(d) In January 2012, WPD (South West) entered into a new £245 million syndicated credit facility to replace its previous £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.

(e) At June 30, 2012, the U.S. dollar equivalent of unused capacity under WPD's committed credit facilities was approximately $1.4 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 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 are supported by LG&E's and KU's Syndicated Credit Facilities. LG&E and KU had no commercial paper outstanding at June 30, 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 June 30, 2012, PPL Energy Supply had $520 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of approximately 0.48%.

In May 2012, PPL Electric increased the capacity of its commercial paper program from $200 million to $300 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. At June 30, 2012, PPL Electric had $195 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of approximately 0.49%.

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 591 thousand 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 591 thousand 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.

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.

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 were used for general corporate purposes.

In June 2012, LKE completed an exchange of all its outstanding 4.375% Senior Notes due 2021 issued in September 2011 in a transaction not registered under the Securities Act of 1933, for similar securities that were issued in a transaction registered with the SEC. See Note 7 in PPL's and LKE's 2011 Form 10-K for additional information.

In June 2012, PPL Capital Funding issued $400 million of 4.20% Senior Notes due 2022. The notes may be redeemed at PPL Capital Funding's option any time prior to maturity at make-whole redemption prices. PPL Capital Funding received proceeds of $396 million, net of a discount and underwriting fees, that will be used for general corporate purposes.

In June 2012, PPL Electric redeemed all 2.5 million shares of its 6.25% Series Preference Stock, par value $100 per share. The price paid for the redemption was the par value, without premium ($250 million in the aggregate). At December 31, 2011, the preference stock was reflected in "Noncontrolling Interests" on PPL's Balance Sheet.

In July 2012, PPL Capital Funding gave notice of its election to redeem at par on August 14, 2012, together with interest accrued to the redemption date, the entire $99 million outstanding principal amount of its 6.85% Senior Notes due 2047.

See Note 7 in PPL's 2011 Form 10-K for information on the 2011 Bridge Facility, 2011 Equity Units and the April 2011 issuance of common stock.

Common Stock Dividends

In May 2012, PPL declared its quarterly common stock dividend, payable July 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 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 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.

In March and May 2012, Moody's, S&P and Fitch affirmed the long-term ratings for LG&E's 2003 Series A and 2007 Series B pollution control bonds.

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.

In May 2012, Fitch downgraded its rating and revised its outlook for PPL Montana's Pass Through Certificates due 2020.

In June 2012, Fitch assigned a rating and outlook to PPL Capital Funding's Senior Notes.

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 that require 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 June 30, 2012. At June 30, 2012, if PPL's and its subsidiaries' credit ratings had been below investment grade, PPL would have been required to prepay or post an additional $531 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.

Capital Expenditures

Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. PPL has lowered its projected capital spending for 2012 by approximately $325 million from the previously disclosed $3.8 billion projection included in PPL's 2011 Form 10-K. The lower projected capital spending is due mainly to the terminated Bluegrass CT acquisition discussed in Notes 6 and 8 to the Financial Statements and the status of environmental projects.

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 June 30, 2012 and December 31, 2011 was a net asset/(liability) of $796 million and $(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 for the periods ended June 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Six Months	
	2012	2011	2012	2011
Fair value of contracts outstanding at the beginning of the period	$ 1,215	$ 997	$ 1,082	$ 947
Contracts realized or otherwise settled during the period	(261)	(85)	(540)	(128)
Fair value of new contracts entered into during the period (a)	13	31	12	15
Other changes in fair value	(6)	(49)	407	60
Fair value of contracts outstanding at the end of the period	$ 961	$ 894	$ 961	$ 894

(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 June 30, 2012, based on the level of observability of the information used to determine the fair value.

	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	$ 703	$ 237	$ (21)	$ 8	$ 927
Prices based on significant unobservable inputs	21	9	4		34
Fair value of contracts outstanding at the end of the period	$ 724	$ 246	$ (17)	$ 8	$ 961

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 2017. 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		Six Months	
	2012	2011	2012	2011
Fair value of contracts outstanding at the beginning of the period	$ 2	$ 7	$ (4)	$ 4
Contracts realized or otherwise settled during the period	(1)	1	(1)	3
Fair value of new contracts entered into during the period (a)	(1)	5	5	8
Other changes in fair value	17	2	17	
Fair value of contracts outstanding at the end of the period	$ 17	$ 15	$ 17	$ 15

(a) Represents the fair value of contracts at the end of the quarter of their inception.

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

The following table segregates the net fair value of trading commodity derivative contracts at June 30, 2012, based on the level of observability of the information used to determine the fair value.

	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	$ 1		$ 17
Fair value of contracts outstanding at the end of the period	$ 8	$ 8	$ 1		$ 17

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, 2012	Twelve Months Ended December 31, 2011	Six Months Ended June 30, 2012	Twelve Months Ended December 31, 2011
95% Confidence Level, Five-Day Holding Period				
Period End	$ 5	$ 1	$ 11	$ 6
Average for the Period	2	3	9	5
High	5	6	11	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 June 30, 2012.

Interest Rate Risk

PPL and its subsidiaries issue 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, 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 international debt portfolios. PPL estimated that a 10% decrease in interest rates at June 30, 2012 would increase the fair value of its debt portfolio by $601 million.

At June 30, 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)	$ 300	$ (15)	$ (6)
Cross-currency swaps (d)	1,262	68	(177)
Fair value hedges			
Interest rate swaps (e)	99	1	
Economic hedges			
Interest rate swaps (f)	179	(62)	(3)

(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 June 30, 2012 mature through 2023.
(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. 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. The positions outstanding at June 30, 2012 mature through 2028.
(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. In July 2012, these contracts were canceled without penalties by the counterparties.
(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 June 30, 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 June 30, 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)	£	96	$	3	$	(15)
Economic hedges (c)		1,022		12		(153)

(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. The positions outstanding at June 30, 2012 mature through 2013. Excludes the amount of an intercompany loan classified as a net investment hedge. See Note 14 to the Financial Statements for additional information.
(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 positions outstanding at June 30, 2012 mature through 2014.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the PPL Susquehanna nuclear plant (Susquehanna). At June 30, 2012, 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. 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, 2012, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated $47 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL's 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 loss of $104 million for the six months ended June 30, 2012, which primarily reflected a $196 million reduction to PP&E offset by a reduction of $92 million to net liabilities. 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. 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 and LG&E's and KU's June 2012 termination of the asset purchase agreement for the Bluegrass CTs.

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

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 by the relevant regulatory agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the cost of their products or their demand for PPL's services. See Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in PPL's 2011 Form 10-K 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 and six months ended June 30, 2012 with the same periods in 2011.

- "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 actions.

- "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 competitive 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 the three and six months ended June 30, 2012 was $19 million and $328 million compared to $89 million and $303 million for the same periods in 2011 representing a 79% decrease and an 8% increase over the same periods in 2011.

See "Results of Operations" for details of special items and analysis of the consolidated results of operations.

Economic and Market Conditions

Unregulated gross energy margins associated with PPL Energy Supply's competitive generation and marketing business are impacted by changes in market prices and demand for electricity and natural gas, power plant availability, competition in the markets for retail customers, fuel costs and availability, fuel transportation costs and other costs. Current depressed wholesale market prices for electricity and natural gas have resulted from general weak economic conditions and other factors, including the impact of expanded domestic shale gas development. As a result of these factors, PPL Energy Supply has experienced a shift in the dispatching of its competitive generation from coal-fired to combined-cycle gas-fired generation as illustrated in the following table:

	Average Utilization Factors (a)	
	2009 - 2011	**YTD 2012**
Pennsylvania coal plants	90%	63%
Montana coal plants	83%	50%
Combined-cycle gas plants	64%	96%

(a) All periods reflect the six months ending June 30.

This reduction in coal-fired generation output has resulted in a surplus of coal inventory at certain of PPL Energy Supply's Pennsylvania coal plants. To mitigate the risk of exceeding available coal storage, PPL Energy Supply incurred pre-tax charges of $12 million during the six months ended June 30, 2012 to reduce its 2012 contracted coal deliveries. Because coal purchases may also exceed expected fuel needs for 2013, PPL Energy Supply continues to manage its coal inventory to mitigate the financial impact and physical implications of an oversupply, including, but not limited to, contract modifications to reduce 2013 coal deliveries.

In addition, current economic and commodity market conditions indicated a lower value of unhedged future energy margins (primarily in 2014 and forward years) compared to the hedged energy margins in 2012. As has been PPL Energy Supply's practice in periods of changing business conditions, PPL Energy Supply continues to review its future business and operational plans, including capital and operation and maintenance expenditures, as well as its hedging strategies.

PPL Energy Supply's businesses are also subject to extensive federal, state and local environmental laws, rules and regulations. PPL Energy Supply's competitive generation assets are well positioned to meet these requirements. See Note 15 to the Financial Statements in PPL Energy Supply's Form 2011 10-K for additional information on these requirements.

In light of these economic and market conditions, as well as current and projected environmental regulatory requirements, PPL Energy Supply considered whether certain of its generating assets were impaired, and determined that no impairment charges were required at June 30, 2012. PPL Energy Supply is unable to predict whether future environmental requirements or market conditions will result in impairment charges or retirements.

PPL Energy Supply and its subsidiaries may also be impacted in future periods by the uncertainty in the worldwide financial and credit markets partially caused by the European sovereign debt crisis. In addition, PPL Energy Supply may be impacted by reductions in the credit ratings of financial institutions and evolving regulations in the financial sector. Collectively, these factors could reduce availability or restrict PPL Energy Supply and its subsidiaries' ability to maintain sufficient levels of liquidity, reduce capital market activities, change collateral posting requirements and increase the associated costs to PPL Energy Supply and its subsidiaries.

PPL Energy Supply cannot predict the future impact that these economic and market conditions and regulatory requirements may have on its financial condition or results of operations.

Ironwood Acquisition

In April 2012, an indirect, wholly owned subsidiary of PPL Energy Supply completed the acquisition of the equity interests in the owner and operator of 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 June 30, 2012, which has been fully reserved. No assurance can be given as to the collectability of the receivable.

In July 2012, PPL EnergyPlus filed its proof of claim in the SMGT bankruptcy proceeding. The total claim is approximately $375 million, predominantly an unsecured claim representing the value for energy sales that will not occur as a result of the termination of the SMGT Contract.

PPL Energy Supply cannot predict any amounts that it may recover in connection with the SMGT bankruptcy or 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 and six months ended June 30, 2012 with the same periods 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

Net Income Attributable to PPL Energy Supply for the periods ended June 30 was:

	Three Months		Six Months	
	2012	2011	2012	2011
Net Income Attributable to PPL Energy Supply	$ 19	$ 89	$ 328	$ 303

The changes in the components of Net Income Attributable to PPL Energy Supply between these periods were due to the following factors, which reflect reclassifications for items included in unregulated gross energy margins and certain items that management considers special. See additional detail of these special items in the tables below.

	Three Months	Six Months
Unregulated gross energy margins		$ (87)
Other operation and maintenance	$ (10)	(16)
Depreciation	(9)	(14)
Other Income (Expense) - net	(1)	(10)
Interest Expense	7	16
Other	(2)	(3)
Income Taxes	6	65
Discontinued operations, after-tax		3
Special items, after-tax	(61)	71
Total	$ (70)	$ 25

- 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 for the three-month period primarily due to $11 million of higher costs at PPL Susquehanna, including refueling outage costs, payroll-related costs and timing of projects, and $7 million from higher system-related costs and timing of projects, partially offset by $8 million of trademark royalties with an affiliate in 2011 for which the agreement was terminated December 31, 2011.

  Higher other operation and maintenance expense for the six-month period primarily due to $17 million of higher costs at PPL Susquehanna, including refueling outage costs, payroll-related costs and timing of projects, and $14 million from higher system-related costs and timing of projects, partially offset by $17 million of trademark royalties with an affiliate in 2011 for which the agreement was terminated December 31, 2011.

- Higher depreciation expense for the three and six-month periods due to the impact of PP&E additions.

- Lower other income (expense) - net for the six-month period primarily due to lower earnings on securities in the NDT funds.

- Lower interest expense for the three and six-month period, reflecting a $5 million and $10 million impact of lower interest rates, as a result of the redemption of 7.00% Senior Unsecured Notes in July 2011.

- Lower income taxes for the six-month period primarily due to lower pre-tax income, which reduced income taxes by $48 million. The six-month period was also lower due to an $11 million deferred tax benefit from a state tax rate adjustment recorded in 2012 and $6 million of Pennsylvania net operating loss valuation allowance adjustments 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 during the periods ended June 30.

	Income Statement Line Item	Three Months 2012	Three Months 2011	Six Months 2012	Six Months 2011
Special items gains (losses), net of tax (expense) benefit:					
Adjusted energy-related economic activity, net, net of tax of $23, $2, ($79), ($10)	(a)	$ (32)	$ (3)	$ 118	$ 14
Impairments:					
Emission allowances, net of tax of $0, $0, $0, $1	Other O&M				(1)
Renewable energy credits, net of tax of $0, $0, $0, $2	Other O&M				(2)
Adjustments - nuclear decommissioning trust investments, net of tax of ($1), $0, ($2), ($1)	Other Income-net			1	1
LKE acquisition-related adjustments:					
Sale of certain non-core generation facilities, net of tax of $0, $1, $0, $0	Disc. Operations		(2)		(3)
Other:					
Montana hydroelectric litigation, net of tax of $0, $0, $0, $1	Interest Expense		(1)		(1)
Litigation settlement - spent nuclear fuel storage, net of tax of $0, ($21), $0, ($21) (b)	Fuel		29		29
Counterparty bankruptcy, net of tax of $0, $0, $5, $0 (c)	Other O&M			(6)	
Wholesale supply cost reimbursement, net of tax of $0, $0, $0, $0	(d)	1		1	
Ash basin leak remediation adjustment, net of tax of $0, $0, ($1), $0	Other O&M			1	
Coal contract modification payments, net of tax of $5, $0, $5, $0 (e)	Fuel	(7)		(7)	
Total		$ (38)	$ 23	$ 108	$ 37

(a) See "Reconciliation of Economic Activity" below.
(b) 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 September 2009.
(c) In October 2011, a wholesale customer, SMGT, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy code. In 2012, PPL EnergyPlus recorded an additional 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.
(d) Recorded in "Wholesale energy marketing - Realized" on the Statement of Income.
(e) As a result of lower electricity and natural gas prices, coal unit runtimes have decreased. Contract modification payments were incurred to reduce the contracted coal quantities scheduled for delivery.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) for the periods ended June 30, 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		Six Months	
	2012	2011	2012	2011
Operating Revenues				
Unregulated retail electric and gas	$ (12)	$ 1	$ (2)	$ 5
Wholesale energy marketing	(458)	(44)	394	13
Operating Expenses				
Fuel	(16)	(11)	(14)	12
Energy Purchases	442	109	(149)	127
Energy-related economic activity (a)	(44)	55	229	157
Option premiums (b)	1	6	1	11
Adjusted energy-related economic activity	(43)	61	230	168
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010	12	66	33	144
Adjusted energy-related economic activity, net, pre-tax	$ (55)	$ (5)	$ 197	$ 24
Adjusted energy-related economic activity, net, after-tax	$ (32)	$ (3)	$ 118	$ 14

(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, primarily driven by lower energy margins as a result of lower energy and capacity prices, higher fuel costs, higher operation and maintenance expense, and higher depreciation. See "Overview" for a discussion on economic and market conditions.

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 periods ended June 30.

	2012 Three Months			2011 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	$ 1,075	$ 8 (c)	$ 1,083	$ 716	$ 16 (c)	$ 732
Unrealized economic activity		(458) (d)	(458)		(44) (d)	(44)
Wholesale energy marketing to affiliate	17		17	4		4
Unregulated retail electric and gas	192	(12)	180	180	1	181
Net energy trading margins	10		10	10		10
Energy-related businesses		112	112		114	114
Total Operating Revenues	1,294	(350)	944	910	87	997
Operating Expenses						
Fuel	170	26 (e)	196	250	(42) (e)	208
Energy purchases						
Realized	617	18 (c)	635	150	76 (c)	226
Unrealized economic activity		(442) (d)	(442)		(109) (d)	(109)
Energy purchases from affiliate				1		1
Other operation and maintenance	7	287	294	9	279	288
Depreciation		69	69		60	60
Taxes, other than income	7	10	17	7	9	16
Energy-related businesses		109	109		112	112
Total Operating Expenses	801	77	878	417	385	802
Total	$ 493	$ (427)	$ 66	$ 493	$ (298)	$ 195

	2012 Six Months			2011 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	$ 2,279	$ 12 (c)	$ 2,291	$ 1,738	$ 32 (c)	$ 1,770
Unrealized economic activity		394 (d)	394		13 (d)	13
Wholesale energy marketing to affiliate	38		38	10		10
Unregulated retail electric and gas	406	(2)	404	323	5	328
Net energy trading margins	18		18	21		21
Energy-related businesses		208	208		224	224
Total Operating Revenues	2,741	612	3,353	2,092	274	2,366
Operating Expenses						
Fuel	385	22 (e)	407	534	(66) (e)	468
Energy purchases						
Realized	1,251	43 (c)	1,294	377	163 (c)	540
Unrealized economic activity		149 (d)	149		(127) (d)	(127)
Energy purchases from affiliate	1		1	2		2
Other operation and maintenance	11	538	549	13	520	533
Depreciation		133	133		119	119
Taxes, other than income	16	19	35	14	18	32
Energy-related businesses		201	201		220	220
Total Operating Expenses	1,664	1,105	2,769	940	847	1,787
Discontinued Operations				12	(12) (f)	
Total	$ 1,077	$ (493)	$ 584	$ 1,164	$ (585)	$ 579

(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. For the three and six months ended June 30, 2012, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" include net pre-tax losses of $12 million and $33 related to the monetization of certain full-requirement sales contracts and net pre-tax gains of $1 million and $1 million related to the amortization of option premiums. The three and six months ended June 30, 2011 include net pre-tax losses of $66 million and $144 million related to the monetization of certain full-requirement sales contracts and net pre-tax gains of $6 million and $11 million related to the amortization of option premiums.
(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. The three and six months ended June 30, 2012, includes a pre-tax loss of $12 million related to coal contract modification payments. The three and six months ended June 30, 2011 includes a pre-tax credit of $50 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 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		
	2012	2011	Change	2012	2011	Change
Non-trading						
Eastern U.S.	$ 407	$ 395	$ 12	$ 896	$ 972	$ (76)
Western U.S.	76	88	(12)	163	171	(8)
Net energy trading	10	10		18	21	(3)
Total	$ 493	$ 493	$	$ 1,077	$ 1,164	$ (87)

Eastern U.S.

The changes in non-trading margins for the periods ended June 30, 2012 compared with 2011 were due to:

	Three Months	Six Months
Baseload energy and capacity prices (a)	$ (51)	$ (137)
Intermediate and peaking energy and capacity (b)	(5)	(26)
Full-requirement sales contracts	(9)	(14)
Impact of non-core generation facilities sold in the first quarter of 2011		(12)
Ironwood Acquisition which eliminates tolling expense (c)	13	13
Net coal and hydroelectric unit availability (d)	9	19
Nuclear generation volume (e)	57	82
Other	(2)	(1)
	$ 12	$ (76)

(a) Energy prices and capacity prices were lower in both periods of 2012.
(b) Capacity prices were lower in both periods of 2012.
(c) See Note 8 to the Financial Statements for additional information.
(d) Coal unit availability was higher in both periods allowing the capture of additional margins.
(e) For the three and six month periods, volumes were higher due to a shorter outage period for blade inspections and an uprate in the third quarter of 2011. For the six month period, volumes were also higher due to an unplanned outage in March 2011.

Western U.S.

Non-trading margins for the three and six months ended June 30, 2012, compared with the same periods in 2011 were lower primarily due to $14 million related to the bankruptcy of SMGT.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense for the periods ended June 30, 2012 compared with 2011 was due to:

	Three Months	Six Months
Susquehanna nuclear plant costs (a)	$ 11	$ 17
Uncollectible accounts (b)		11
Costs at Western fossil and hydroelectric plants	(3)	(5)
Trademark royalties (c)	(8)	(17)
Corporate service costs (d)	7	14
Other	(1)	(4)
Total	$ 6	$ 16

(a) Primarily due to refueling outage costs, payroll-related costs and timing of projects.
(b) In October 2011, SMGT filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. The increase for the six-month period reflects an $11 million increase to a reserve on unpaid amounts.
(c) In 2011, PPL Energy Supply was charged trademark royalties by an affiliate. The agreement was terminated December 31, 2011.
(d) Primarily due to systems-related costs and timing of projects.

Depreciation

The increase (decrease) in depreciation expense for the periods ended June 30, 2012 compared with 2011 was due to:

	Three Months	Six Months
Additions to PP&E	$ 5	$ 10
Ironwood Acquisition	4	4
Total	$ 9	$ 14

Other Income (Expense) - net

The $8 million decrease in other income (expense) - net for the six months ended June 30, 2012 compared with 2011 was primarily due to a $6 million decrease in earnings on securities in the NDT funds.

See Note 12 to the Financial Statements for further details.

Interest Expense

The increase (decrease) in interest expense for the periods ended June 30, 2012 compared with 2011 was due to:

	Three Months	Six Months
Interest rates (a)	$ (5)	$ (10)
Debt balances	(2)	(5)
Ironwood Acquisition (Note 8)	4	4
Other	(5)	(7)
Total	$ (8)	$ (18)

(a) Long-term weighted average rates of 5.88% at June 30, 2012 compared with 6.24% at June 30, 2011.

Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2012 compared with 2011 was due to:

	Three Months	Six Months
Higher (lower) pre-tax book income	$ (50)	$ 2
State valuation allowance adjustments (a)		(6)
State deferred tax rate change (b)		(11)
Total	$ (50)	$ (15)

(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 state deferred income tax expense during the six months ended June 30, 2011 related to valuation allowances.
(b) During the six months ended June 30, 2012, PPL Energy Supply recorded an 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:

	June 30, 2012	December 31, 2011
Cash and cash equivalents	$ 446	$ 379
Short-term debt	$ 520	$ 400

The $67 million increase in PPL Energy Supply's cash and cash equivalents position was primarily the net result of:

- contributions from Member of $472 million;
- net cash provided by operating activities of $308 million;
- a net decrease in note receivable from affiliate of $198 million;
- a net increase in short-term debt of $120 million;
- distributions to Member of $657 million;
- capital expenditures of $316 million; and
- the Ironwood Acquisition for $84 million, net of cash acquired.

PPL Energy Supply's cash provided by operating activities increased by $120 million for the six months ended June 30, 2012, compared with 2011. This was primarily due to a $68 million decrease in defined benefit plan funding and a $104 million increase in cash from components of working capital (primarily due to changes in counterparty collateral, partially offset by changes in accounts receivable, unbilled revenue and accrued taxes).

Credit Facilities

PPL Energy Supply maintains credit facilities to provide liquidity and to backstop commercial paper issuances. At June 30, 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		$ 662	$ 2,338
Letter of Credit Facility	200	n/a	128	72
Total PPL Energy Supply Credit Facilities (a)	$ 3,200		$ 790	$ 2,410

(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.

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 June 30, 2012, PPL Energy Supply had $520 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of approximately 0.48%.

Long-term Debt Securities

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.

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 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.

  In May 2012, Fitch downgraded its rating and revised its outlook 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 that require 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 June 30, 2012. At June 30, 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 $427 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 competitive 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 June 30, 2012 and December 31, 2011 was a net asset/(liability) of $796 million and $(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 range in maturity through 2019.

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	
	2012	2011	2012	2011
Fair value of contracts outstanding at the beginning of the period	$ 1,215	$ 998	$ 1,082	$ 958
Contracts realized or otherwise settled during the period	(261)	(83)	(540)	(135)
Fair value of new contracts entered into during the period (a)	13	32	12	15
Other changes in fair value	(6)	(51)	407	58
Fair value of contracts outstanding at the end of the period	$ 961	$ 896	$ 961	$ 896

(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 non-trading commodity derivative contracts at June 30, 2012, based on the level of observability of the information used to determine the 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
Source of Fair Value					
Prices based on significant other observable inputs	$ 703	$ 237	$ (21)	$ 8	$ 927
Prices based on significant unobservable inputs	21	9	4		34
Fair value of contracts outstanding at the end of the period	$ 724	$ 246	$ (17)	$ 8	$ 961

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 could be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their own counterparties) with which it has energy contracts and other factors could affect PPL Energy Supply's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL Energy Supply attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future. 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. 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 range in maturity through 2017. 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	
	2012	2011	2012	2011
Fair value of contracts outstanding at the beginning of the period	$ 2	$ 7	$ (4)	$ 4
Contracts realized or otherwise settled during the period	(1)	1	(1)	3
Fair value of new contracts entered into during the period (a)	(1)	5	5	8
Other changes in fair value	17	2	17	
Fair value of contracts outstanding at the end of the period	$ 17	$ 15	$ 17	$ 15

(a) Represents the fair value of contracts at the end of the quarter of their inception.

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

The following table segregates the net fair value of trading commodity derivative contracts at June 30, 2012, based on the level of observability of the information used to determine the 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
Source of Fair Value					
Prices based on significant other observable inputs	$ 8	$ 8	$ 1		$ 17
Fair value of contracts outstanding at the end of the period	$ 8	$ 8	$ 1		$ 17

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, 2012	Twelve Months Ended December 31, 2011	Six Months Ended June 30, 2012	Twelve Months Ended December 31, 2011
95% Confidence Level, Five-Day Holding Period				
Period End	$ 5	$ 1	$ 11	$ 6
Average for the Period	2	3	9	5
High	5	6	11	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 June 30, 2012.

Interest Rate Risk

PPL Energy Supply and its subsidiaries issue 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, 2012.

At June 30, 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 June 30, 2012 would increase the fair value of its debt portfolio by $56 million.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the PPL Susquehanna nuclear plant (Susquehanna). At June 30, 2012, 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. 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, 2012, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated $47 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk

See Notes 11, 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL Energy Supply's 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

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, cost may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed by the relevant regulatory agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers and industrial power users, and may impact the costs of their products or their demand for PPL Energy Supply's services. See Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in PPL Energy Supply's 2011 Form 10-K 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 and six months ended June 30, 2012 with the same periods in 2011.

- "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 actions.

- "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 those related to 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 the three and six months ended June 30, 2012 was $29 million and $62 million compared to $36 million and $88 million for the same periods in 2011 representing a 19% and 30% decrease from the same periods in 2011.

See "Results of Operations" for a discussion and analysis of PPL Electric's earnings.

Redemption of Preference Stock

In June 2012, PPL Electric redeemed all 2.5 million shares of its 6.25% Series Preference Stock, par value $100 per share. The price paid for the redemption was the par value, without premium ($250 million in the aggregate). At December 31, 2011, the preference stock was reflected on PPL Electric's Balance Sheets in "Preference stock."

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.

At June 30, 2012, PPL Electric's estimated share of the project cost has increased to $560 million from approximately $500 million at December 31, 2011, mainly due to increased material costs. In July 2012, PPL Electric began pre-construction activities including tree and vegetation removal from the transmission line's right of way and construction of access roads. See Note 8 in PPL Electric's 2011 Form 10-K for additional information.

FERC Formula Rates

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 approximately $50 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 June 30, 2012 and December 31, 2011. In May 2012, the FERC issued an order approving PPL Electric's request effective June 1, 2012.

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 and six months ended June 30, 2012 with the same periods 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

Net Income Available to PPL Corporation for the periods ended June 30 was:

	Three Months		Six Months	
	2012	2011	2012	2011
Net Income Available to PPL Corporation	$ 29	$ 36	$ 62	$ 88

The changes in the components of Net Income Available to PPL Corporation between these periods were due to the following factors which reflect reclassifications for items included in gross delivery margins.

	Three Months	Six Months
Pennsylvania gross delivery margins	$ 3	$ (10)
Other operation and maintenance	(19)	(25)
Depreciation	(2)	(8)
Other	(1)	2
Income Taxes	8	11
Distributions on preference stock	4	4
Total	$ (7)	$ (26)

- 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 for the three-month period, primarily due to $6 million of higher payroll and benefit related costs, $6 million of higher vegetation management costs and $3 million of higher corporate service costs.

  Higher other operation and maintenance expense for the six-month period, primarily due to $8 million of higher payroll and benefit related costs, $8 million of higher vegetation management costs and $5 million of higher corporate service costs.

- Higher depreciation expense for the six-month period, primarily due to the impact of PP&E additions related to the ongoing efforts to ensure the reliability of the delivery system, and replace aging infrastructure.

- Lower income taxes for the three and six-month periods, primarily due to the change in pre-tax income, which reduced income taxes by $7 million and $16 million.

- Lower distributions on preference stock for the three and six-month periods due to the preference stock redemption in June 2012.

Outlook

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, lower financing costs, and lower income taxes.

In March 2012, PPL Electric filed a request with the PUC to increase distribution rates by approximately $105 million. The proposed distribution revenue rate increase would result in a 2.9% increase over PPL Electric's total rates at the time of filing and be effective January 1, 2013. PPL Electric's application includes a request for an authorized return-on-equity of 11.25%. Hearings on this matter are scheduled during August 2012 and a decision is expected in the fourth quarter of 2012. 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 tables reconcile "Operating Income" to "Pennsylvania Gross Delivery Margins" as defined by PPL Electric for the periods ended June 30.

	2012 Three Months			2011 Three Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues						
Retail electric	$ 403		$ 403	$ 436		$ 436
Electric revenue from affiliate	1		1	4		4
Total Operating Revenues	404		404	440		440
Operating Expenses						
Energy purchases	120		120	169		169
Energy purchases from affiliate	17		17	4		4
Other operation and maintenance	26	$ 117	143	29	$ 97	126
Depreciation		39	39		37	37
Taxes, other than income	20	2	22	20	2	22
Total Operating Expenses	183	158	341	222	136	358
Total	$ 221	$ (158)	$ 63	$ 218	$ (136)	$ 82

	2012 Six Months			2011 Six Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues						
Retail electric	$ 860		$ 860	$ 990		$ 990
Electric revenue from affiliate	2		2	8		8
Total Operating Revenues	862		862	998		998
Operating Expenses						
Energy purchases	273		273	420		420
Energy purchases from affiliate	38		38	10		10
Other operation and maintenance	49	$ 234	283	47	$ 209	256
Depreciation		78	78		70	70
Taxes, other than income	44	4	48	53	4	57
Total Operating Expenses	404	316	720	530	283	813
Total	$ 458	$ (316)	$ 142	$ 468	$ (283)	$ 185

(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		
	2012	2011	Change	2012	2011	Change
PA Gross Delivery Margins by Component						
Distribution	$ 170	$ 173	$ (3)	$ 359	$ 381	$ (22)
Transmission	51	45	6	99	87	12
Total	$ 221	$ 218	$ 3	$ 458	$ 468	$ (10)

Distribution

Margins decreased for the three and six month periods ended June 30, 2012, compared with 2011, due primarily to the effects of weather.

Transmission

Margins increased for the three and six month periods ended June 30, 2012, compared with 2011, 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 for the periods ended June 30, 2012 compared with 2011 was due to:

	Three Months	Six Months
Payroll-related costs	$ 4	$ 7
Vegetation management	6	8
PUC-reportable storm costs, net of insurance recovery	(2)	(7)
Uncollectible accounts	2	4
Allocation of certain corporate support group costs	2	5
Other	5	10
Total	$ 17	$ 27

Depreciation

Depreciation increased by $8 million for the six months ended June 30, 2012 compared with 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 for the six months ended June 30, 2012 compared with 2011 decreased by $9 million, primarily due to lower Pennsylvania gross receipts tax expense due to a decrease in taxable electric revenue. This tax is included in "Pennsylvania Gross Delivery Margins."

Financing Costs

The increase (decrease) in financing costs for the periods ended June 30, 2012 compared with 2011 was due to:

	Three Months	Six Months
Long-term debt balances	$ 4	$ 7
Interest rates	(5)	(9)
Distributions on preference stock (a)	(4)	(4)
Amortization of debt issuance costs	1	2
Total	$ (4)	$ (4)

(a) Decreases for both periods are due to the June 2012 redemption of all 2.5 million shares of preference stock.

Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2012 compared with 2011 was due to:

	Three Months	Six Months
Lower pre-tax book income	$ (7)	$ (16)
Federal and state tax reserve adjustments		1
Federal and state tax return adjustments (a)		2
Depreciation not normalized (a)	(1)	1
Other		1
Total	$ (8)	$ (11)

(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. 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:

	June 30, 2012	December 31, 2011
Cash and cash equivalents	$ 45	$ 320
Short-term debt	$ 195	$

The $275 million decrease in PPL Electric's cash and cash equivalents position was primarily the net result of:

- capital expenditures of $256 million;
- redemption of preference stock of $250 million;
- the payment of $56 million of common stock dividends to parent;
- the net increase in short-term debt of $195 million; and
- net cash provided by operating activities of $101 million.

PPL Electric's cash provided by operating activities increased by $38 million for the six months ended June 30, 2012, compared with 2011, primarily due to a $48 million decrease in defined benefit plan funding.

Credit Facilities

PPL Electric maintains credit facilities to provide liquidity and to backstop commercial paper issuances. At June 30, 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 and Commercial Paper Backstop	Unused Capacity
Syndicated Credit Facility (a)	$ 300		$ 196	$ 104
Asset-backed Credit Facility (b)	150		n/a	150
Total PPL Electric Credit Facilities	$ 450		$ 196	$ 254

(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 7% 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, 2012, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under this facility was limited to $87 million. In July 2012, PPL Electric and the subsidiary extended this agreement from July 2012 to September 2012 and reduced the capacity to $100 million.

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

Commercial Paper

In May 2012, PPL Electric increased the capacity of its commercial paper program from $200 million to $300 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. At June 30, 2012, PPL Electric had $195 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of approximately 0.49%.

Equity Securities

In June 2012, PPL Electric redeemed all 2.5 million shares of its 6.25% Series Preference Stock, par value $100 per share. The price paid for the redemption was the par value, without premium ($250 million in the aggregate). At December 31, 2011, the preference stock was reflected in "Preference stock" on PPL Electric's Balance Sheet.

Rating Agency Actions

Moody's, S&P and Fitch periodically review the credit ratings on the debt 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 issues 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, 2012. PPL Electric estimated that a 10% decrease in interest rates at June 30, 2012 would increase the fair value of its debt portfolio by $77 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

See Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in PPL Electric's 2011 Form 10-K 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 and six months ended June 30, 2012 with the same periods in 2011.

- "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 actions.

- "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

Net Income for the three and six months ended June 30, 2012 was $44 million and $97 million compared to $41 million and $128 million for the same periods in 2011 representing a 7% increase and a 24% decrease over the same periods in 2011.

See "Results of Operations" for a discussion and analysis of LKE's earnings.

Terminated 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, pending receipt of applicable regulatory approvals. In May 2012, the KPSC issued an order approving the request to purchase the Bluegrass CTs. Also in May 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to approval by the FERC of satisfactory mitigation measures to address market-power concerns. After a review of potentially available mitigation options, LG&E and KU determined that the options were not commercially justifiable. In June 2012, LG&E and KU terminated the asset purchase agreement for the Bluegrass CTs in accordance with its terms and made applicable filings with the KPSC and FERC. LG&E and KU are currently assessing the impact of the Bluegrass contract termination and potential future generation capacity options.

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 Kentucky. In May 2012, the KPSC issued an order approving the request. Subject to finalizing contracting agreements and permitting activities, construction is expected to begin in 2012 and be completed during 2015. The project, which includes building a natural gas supply pipeline and related transmission projects, has an estimated cost of approximately $600 million ($130 million for LG&E and $470 million for KU).

In conjunction with this construction and to meet new, stricter federal EPA regulations with a 2015 compliance date, 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 capacity rating of 797 MW. The Cane Run and Green River coal units are anticipated to remain operational until the NGCC generation and associated transmission project is completed.

Registered Debt Exchange Offer by LKE

In June 2012, LKE completed an exchange of all its outstanding 4.375% Senior Notes due 2021 issued in September 2011 in a transaction not registered under the Securities Act of 1933, for similar securities that were issued in a transaction registered with the SEC. See Note 7 in LKE's 2011 Form 10-K 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 June 30, 2012.

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 and six months ended June 30, 2012 with the same periods 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

Net Income for the periods ended June 30 was:

	Three Months		Six Months	
	2012	2011	2012	2011
Net Income	$ 44	$ 41	$ 97	$ 128

The changes in the components of Net Income between these periods were due to the following factors, which reflect reclassifications for items included in margins and certain items that management considers special. See additional detail of these special items in the table below.

	Three Months	Six Months
Margins	$ 12	$ (16)
Other operation and maintenance	4	(17)
Depreciation	(1)	(5)
Taxes, other than income	(3)	(5)
Other	(1)	(4)
Other Income (Expense) - net	(7)	(9)
Income Taxes	4	26
Special items	(5)	(1)
Total	$ 3	$ (31)

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

- Higher other operation and maintenance for the six-month period, primarily due to $11 million of higher steam maintenance costs resulting from an increased scope of scheduled plant outages. Also, a $6 million credit was recorded in 2011 to establish a regulatory asset related to 2009 storm costs.

- Lower other income (expense) - net for the three and six-month periods primarily due to equity losses from an unconsolidated affiliate.

- Lower income taxes for the six-month period, primarily due to the change in pre-tax income.

The following after-tax amounts, which management considers special items, also impacted earnings during the periods ended June 30:

	Income Statement Line Item	Three Months 2012	Three Months 2011	Six Months 2012	Six Months 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	
Other:					
Discontinued Operations, net of tax of $4, $0, $4, $0 (a)	Discontinued Operations	$ (5)		(5)	
Total		$ (5)		$ (1)	

(a) Represents an adjustment to an indemnification liability.

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 **.**

In June 2012, LG&E and KU filed requests with the KPSC for increases in annual base electric rates of approximately $62 million at LG&E and approximately $82 million at KU and an increase in annual base gas rates of approximately $17 million at LG&E. The proposed base rate increases would result in electric rate increases of 6.9% at LG&E and 6.5% at KU and a gas rate increase of 7.0% at LG&E and would be effective in January 2013. LG&E's and KU's applications include requests for authorized returns-on-equity at LG&E and KU of 11% each. A hearing on these matters is expected to be scheduled during the fourth quarter of 2012. LG&E and KU cannot predict the outcome of these proceedings.

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 --

Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margins." Margins 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. Margins 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" and "Depreciation." 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 "Margins" as defined by LKE for the periods ended June 30.

	2012 Three Months			2011 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	$ 658		$ 658	$ 639	$ (1)	$ 638
Operating Expenses						
Fuel	215		215	206		206
Energy purchases	34		34	40		40
Other operation and maintenance	24	$ 173	197	21	177	198
Depreciation	13	73	86	12	72	84
Taxes, other than income		12	12		9	9
Total Operating Expenses	286	258	544	279	258	537
Total	$ 372	$ (258)	$ 114	$ 360	$ (259)	$ 101

	2012 Six Months			2011 Six Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	$ 1,363		$ 1,363	$ 1,404		$ 1,404
Operating Expenses						
Fuel	428		428	421		421
Energy purchases	108		108	147		147
Other operation and maintenance	46	$ 357	403	41	$ 338	379
Depreciation	26	146	172	24	141	165
Taxes, other than income		23	23		18	18
Total Operating Expenses	608	526	1,134	633	497	1,130
Total	$ 755	$ (526)	$ 229	$ 771	$ (497)	$ 274

(a) Represents amounts that are excluded from Margins.
(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins increased by $12 million for the three-month period due to higher retail margins, as volumes were impacted by increases in production levels at some of LKE's larger industrial customers and warmer weather during the three months ended June 30, 2012. Total cooling degree days increased 9% compared to the same period in 2011.

Margins decreased by $16 million for the six-month period primarily due to $13 million of lower retail margins, as volumes were impacted by unseasonably mild weather during the first four months of 2012, and $3 million of lower wholesale margins, as volumes were impacted by lower market prices. Total heating degree days decreased 24% compared to the same period in 2011.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense for the periods ended June 30, 2012, compared with 2011, was due to:

	Three Months	Six Months
Steam maintenance (a)		$ 11
Distribution maintenance (b)	$ (1)	8
DSM	2	3
Other	(2)	2
Total	$ (1)	$ 24

(a) Steam maintenance costs increased $11 million during the six months ended June 30, 2011, 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.

Depreciation

Depreciation increased by $2 million and $7 million for the three and six months ended June 30, 2012 compared with 2011, primarily due to PP&E additions.

Other Income (Expense) - net

The increase (decrease) in other income (expense) - net for the periods ended June 30, 2012, compared with 2011, was due to:

	Three Months	Six Months
Equity losses from an unconsolidated affiliate	$ (4)	$ (6)
Other	(3)	(3)
Total	$ (7)	$ (9)

Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2012, compared with 2011, was due to:

	Three Months	Six Months
Higher (lower) pre-tax book income	$ 2	$ (22)
Net operating loss carryforward adjustments (a)	(3)	(9)
Other	(3)	(1)
Total	$ (4)	$ (32)

(a) During the three and six months ended June 30, 2012, LKE recorded adjustments to deferred taxes related to net operating loss carryforwards based on income tax return adjustments.

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

Income (Loss) from Discontinued Operations (net of income taxes)

Loss from discontinued operations increased by $6 million for the three and six months ended June 30, 2012, compared with 2011. The increase was primarily related to an adjustment to the estimated liability for indemnifications.

Financial Condition

Liquidity and Capital Resources

LKE had the following at:

	June 30, 2012	December 31, 2011
Cash and cash equivalents	$ 29	$ 59

The $30 million decrease in LKE's cash and cash equivalents position was primarily the net result of:

- capital expenditures of $324 million and
- the payment of $60 million of distributions to PPL, partially offset by
- cash provided by operating activities of $354 million.

LKE's cash provided by operating activities decreased by $53 million for the six months ended June 30, 2012, compared with 2011, primarily due to:

- a decrease in net income of $31 million due to unseasonably mild weather during the first four months of 2012 and higher operation and maintenance expenses, adjusted for non-cash effects of $74 million (deferred income taxes and investment tax credits of $90 million and defined benefit plans - expense of $5 million, partially offset by depreciation of $7 million and other noncash items of $14 million) and
- a decrease in coal consumption resulting from lower coal-fired generation due to the mild winter weather and an increase in combustion turbine generation that led to an increase of $34 million in coal inventory, along with an increase in price per ton of coal in comparison to 2011; partially offset by
- a decrease in cash outflows of $95 million due to a reduction in discretionary defined benefit plan contributions.

LKE's cash used in investing activities increased by $273 million for the six months ended June 30, 2012, compared with 2011, primarily due to proceeds from the sale of other investments of $163 million in 2011 and an increase in capital expenditures of $144 million as a result of increased environmental spending, primarily related to landfills, and infrastructure improvements at generation, distribution and transmission facilities.

LKE's cash used in financing activities decreased by $251 million for the six months ended June 30, 2012, compared with 2011, primarily due to a repayment on a revolving line of credit of $163 million in 2011 and lower distributions to PPL of $86 million in 2012.

Credit Facilities

At June 30, 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 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.

LKE's long-term debt securities activity through June 30, 2012 was:

	Debt Issuances	Debt Retirement
Non-cash Exchanges (a)		
LKE Senior Unsecured Notes	$ 250	$ (250)

(a) In June 2012, LKE completed an exchange of all of its outstanding 4.375% Senior Notes due 2021 issued in September 2011 in a transaction not registered under the Securities Act of 1933, for similar securities that were issued in a transaction registered with the SEC.

See Note 7 to the Financial Statements for additional information about 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.

In March and May 2012, Moody's, S&P and Fitch affirmed the long-term ratings for LG&E's 2003 Series A and 2007 Series B pollution control 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 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 June 30, 2012. At June 30, 2012, if LKE and 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 $100 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.

Capital Expenditures

LKE has lowered its projected capital spending for 2012 by approximately $325 million from the previously disclosed $1.2 billion projection included in LKE's 2011 Form 10-K. The lower projected capital spending is due mainly to the terminated Bluegrass CTs acquisition discussed in Notes 6 and 8 to the Financial Statements and the status of environmental projects.

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. See Note 14 to the Financial Statements for additional disclosures.

Interest Rate Risk

LKE and its subsidiaries issue 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 June 30, 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 June 30, 2012, would increase the fair value of its debt portfolio by $120 million.

At June 30, 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	$ (63)	$ (3)

(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 June 30, 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.

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 and six months ended three and six months ended June 30, 2012 with the same periods in 2011.

- "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 actions.

- "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

Net Income for the three and six months ended June 30, 2012 was $26 million and $51 million compared to $20 million and $59 million for the same periods in 2011 representing a 30% increase and a 14% decrease over the same periods in 2011.

See "Results of Operations" for a discussion and analysis of LG&E's earnings.

Terminated 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, pending receipt of applicable regulatory approvals. In May 2012, the KPSC issued an order approving the request to purchase the Bluegrass CTs. Also in May 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to approval by the FERC of satisfactory mitigation measures to address market-power concerns. After a review of potentially available mitigation options, LG&E and KU determined that the options were not commercially justifiable. In June 2012, LG&E and KU terminated the asset purchase agreement for the Bluegrass CTs in accordance with its terms and made applicable filings with the KPSC and FERC. LG&E and KU are currently assessing the impact of the Bluegrass contract termination and potential future generation capacity options.

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 Kentucky. In May 2012, the KPSC issued an order approving the request. Subject to finalizing contracting agreements and permitting activities, construction is expected to begin in 2012 and be completed during 2015. The project, which includes building a natural gas supply pipeline and related transmission projects, has an estimated cost of approximately $600 million ($130 million for LG&E and up to $470 million for KU).

In conjunction with this construction and to meet new, stricter federal EPA regulations with a 2015 compliance date, 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 capacity rating of 797 MW. The Cane Run and Green River coal units are anticipated to remain operational until the NGCC generation and associated transmission project is completed.

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 Facility. LG&E had no commercial paper outstanding at June 30, 2012.

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 and six months ended June 30, 2012 with the same periods 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 for future periods.

Earnings

Net Income for the periods ended June 30 was:

	Three Months		Six Months	
	2012	2011	2012	2011
Net Income	$ 26	$ 20	$ 51	$ 59

The changes in the components of Net Income between these periods were due to the following factors, which reflect reclassification for items included in margins.

	Three Months	Six Months
Margin	$ 8	$ (3)
Other operation and maintenance	2	(7)
Depreciation	(1)	(3)
Taxes, other than income	(1)	(2)
Other Income (Expense) - net	(2)	
Interest Expense	2	2
Income Taxes	(2)	5
Total	$ 6	$ (8)

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.
- Higher other operation and maintenance for the six-month period, due to $7 million of higher steam maintenance costs primarily resulting from an increased scope of scheduled plant outages.

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.

In June 2012, LG&E filed a request with the KPSC for an increase in annual base electric rates of approximately $62 million and an increase in annual base gas rates of approximately $17 million. The proposed request would result in a 6.9% increase in the base electric rates and a 7.0% increase in the base gas rates, and would be effective in January 2013. LG&E's application includes a request for authorized return-on-equity of 11%. A hearing on these matters is expected to be scheduled during the fourth quarter of 2012. LG&E 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, 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 --

Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margins." Margins 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. Margins 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" and "Depreciation". 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 "Margins" as defined by LG&E for the periods ended June 30.

	2012 Three Months			2011 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	$ 304		$ 304	$ 297		$ 297
Operating Expenses						
Fuel	92		92	82		82
Energy purchases	25		25	39		39
Other operation and maintenance	11	$ 81	92	8	$ 83	91
Depreciation	1	37	38	1	36	37
Taxes, other than income		6	6		5	5
Total Operating Expenses	129	124	253	130	124	254
Total	$ 175	$ (124)	$ 51	$ 167	$ (124)	$ 43

	2012 Six Months			2011 Six Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	$ 657		$ 657	$ 695		$ 695
Operating Expenses						
Fuel	181		181	167		167
Energy purchases	98		98	149		149
Other operation and maintenance	21	$ 169	190	19	$ 162	181
Depreciation	1	75	76	1	72	73
Taxes, other than income		11	11		9	9
Total Operating Expenses	301	255	556	336	243	579
Total	$ 356	$ (255)	$ 101	$ 359	$ (243)	$ 116

(a) Represents amounts excluded from Margins.
(b) As reported on the Statement of Income.

Changes in Non-GAAP Financial Measures

Margins increased by $8 million and decreased by $3 million during the three and six months ended June 30, 2012, compared with the same periods in 2011. The positive impact during the three-month period primarily resulted from $8 million of higher retail margins, as volumes were impacted by increases in production levels at some of LG&E's larger industrial customers and warmer weather during the three months ended June 30, 2012. Total cooling degree days increased by 14% compared to the same period in 2011. The negative impact during the six-month period primarily resulted from $3 million of lower wholesale margins, as volumes were impacted by lower market prices.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense for the periods ended June 30, 2012, compared with 2011, was due to:

	Three Months	Six Months
Steam maintenance (a)	$ (2)	$ 7
Other	3	2
Total	$ 1	$ 9

(a) Higher steam maintenance costs of $7 million for the six-month period due to an increased scope of scheduled outages.

Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2012, compared with 2011, was due to:

	Three Months	Six Months
Higher (lower) pre-tax book income	$ 3	$ (5)
Other	(1)	
Total	$ 2	$ (5)

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:

	June 30, 2012	December 31, 2011
Cash and cash equivalents	$ 25	$ 25

LG&E's cash and cash equivalents position was primarily the net result of:

- cash provided by operating activities of $160 million, partially offset by
- capital expenditures of $120 million;
- the payment of $31 million of common stock dividends; and
- notes receivable from affiliates of $6 million.

LG&E's cash provided by operating activities decreased by $17 million for the six months ended June 30, 2012, compared with 2011, primarily due to:

- a net increase in cash outflows related to working capital, excluding fuel, materials and supplies, of $37 million due to the timing of cash receipts and payments, including an $8 million increase in accounts payable invoices paid on behalf of KU and an $8 million increase in tax settlements with LKE;
- a decrease in coal consumption resulting from lower coal-fired generation due to the mild winter weather and an increase in combustion turbine generation that led to an increase of $30 million in coal inventory, along with an increase in price per ton of coal in comparison to 2011; and

- a decrease in net income of $8 million due to unseasonably mild weather during the first four months of 2012, lower off-system sales and higher operation and maintenance expenses, adjusted for non-cash effects of $4 million (defined benefit plans - expense of $2 million and other noncash items of $6 million, partially offset by depreciation of $3 million and deferred income taxes and investment tax credits of $1 million); partially offset by
- a decrease in cash outflows of $42 million due to a reduction in discretionary defined benefit plan contributions and
- a decrease in cash outflows related to accrued taxes of $15 million primarily due to the timing of property tax payments.

LG&E's cash used in investing activities increased by $208 million for the six months ended June 30, 2012, compared with 2011, primarily due to proceeds from the sale of other investments of $163 million in 2011 and an increase in capital expenditures of $41 million as a result of increased environmental spending, primarily related to landfills, and infrastructure improvements at generation, distribution, transmission and gas storage facilities.

LG&E's cash used in financing activities decreased by $186 million for the six months ended June 30, 2012, compared with 2011, primarily due to a repayment on a revolving line of credit of $163 million and a net decrease in notes payable with affiliates of $12 million in 2011, along with lower common stock dividends paid to LKE of $11 million in 2012.

Credit Facilities

At June 30, 2012, LG&E's 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)	$ 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 June 30, 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.

In March and May 2012, Moody's, S&P and Fitch affirmed the long-term ratings for LG&E's 2003 Series A and 2007 Series B pollution control bonds.

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, 2012. At June 30, 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 $79 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.

Capital Expenditures

LG&E has lowered its projected capital spending for 2012 by approximately $215 million from the previously disclosed $554 million projection included in LG&E's 2011 Form 10-K. The lower projected capital spending is due mainly to the terminated Bluegrass CTs acquisition discussed in Notes 6 and 8 to the Financial Statements and the status of environmental projects.

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 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 issues 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 June 30, 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 June 30, 2012, would increase the fair value of its debt portfolio by $28 million.

At June 30, 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	$ (63)	$ (3)

(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 June 30, 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.

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 and six months ended June 30, 2012 with the same periods in 2011.

- "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 actions.

- "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

Net Income for the three and six months ended June 30, 2012 was $30 million and $68 million compared to $30 million and $88 million for the same periods in 2011 representing a 23% decrease for the six-month period.

See "Results of Operations" for a discussion and analysis of KU's earnings.

Terminated Bluegrass CTs Acquisition

In September 2011, KU and LG&E 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, pending receipt of applicable regulatory approvals. In May 2012, the KPSC issued an order approving the request to purchase the Bluegrass CTs. Also in May 2012, the FERC issued an order conditionally authorizing the acquisition of the Bluegrass CTs, subject to approval by the FERC of satisfactory mitigation measures to address market-power concerns. After a review of potentially available mitigation options, KU and LG&E determined that the options were not commercially justifiable. In June 2012, KU and LG&E terminated the asset purchase agreement for the Bluegrass CTs in accordance with its terms and made applicable filings with the KPSC and FERC. KU and LG&E are currently assessing the impact of the Bluegrass contract termination and potential future generation capacity options.

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 Kentucky. In May 2012, the KPSC issued an order approving the request. Subject to finalizing contracting agreements and permitting activities, construction is expected to begin in 2012 and be completed during 2015. The project, which includes building a natural gas supply pipeline and related transmission projects, has an estimated cost of approximately $600 million ($470 million for KU and up to $130 million for LG&E).

In conjunction with this construction and to meet new, stricter federal EPA regulations with a 2015 compliance date, KU and LG&E anticipate retiring six older coal-fired electric generating units at the Cane Run, Green River and Tyrone plants, which have a combined summer capacity rating of 797 MW. The Cane Run and Green River coal units are anticipated to remain operational until the NGCC generation and associated transmission project is completed.

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 Facility. KU had no commercial paper outstanding at June 30, 2012.

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 and six months ended June 30, 2012 with the same periods 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

Net Income for the periods ended June 30 was:

	Three Months		Six Months	
	2012	2011	2012	2011
Net Income	$ 30	$ 30	$ 68	$ 88

The changes in the components of Net Income between these periods were due to the following factors, which reflect reclassifications for items included in margins.

	Three Months	Six Months
Margin	$ 5	$ (12)
Other operation and maintenance	2	(6)
Depreciation	(1)	(3)
Taxes, other than income	(2)	(3)
Other	1	1
Other Income (Expense) - net	(5)	(7)
Income Taxes		10
Total	$	$ (20)

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.
- Higher other operation and maintenance for the six-month period primarily due to a $6 million credit recorded in 2011 to establish a regulatory asset related to 2009 storm costs.
- Higher other income (expense) - net for the three and six-month periods primarily due to equity losses from an unconsolidated affiliate.

- Lower income taxes for the six-month period 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.

In June 2012, KU filed a request with the KPSC for an increase in annual base electric rates of approximately $82 million. The proposed base electric rate increase would result in a 6.5% increase over KU's present rate and would be effective in January 2013. KU's application includes a request for authorized return-on-equity of 11%. A hearing on these matters is expected to be scheduled during the fourth quarter of 2012. KU 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, 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 --

Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margins." Margins 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. Margins 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" and "Depreciation". 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 "Margins" as defined by KU for the periods ended June 30.

	2012 Three Months			2011 Three Months		
	Margins	**Other (a)**	**Operating Income (b)**	**Margins**	**Other (a)**	**Operating Income (b)**
Operating Revenues	$ 374		$ 374	$ 366	$ (1)	$ 365
Operating Expenses						
Fuel	123		123	124		124
Energy purchases	29		29	25		25
Other operation and maintenance	12	$ 86	98	12	88	100
Depreciation	12	36	48	12	35	47
Taxes, other than income		6	6		4	4
Total Operating Expenses	176	128	304	173	127	300
Total	$ 198	$ (128)	$ 70	$ 193	$ (128)	$ 65

	2012 Six Months				2011 Six Months		
	Margins	Other (a)	Operating Income (b)		Margins	Other (a)	Operating Income (b)
Operating Revenues	$ 754		$ 754		$ 771		$ 771
Operating Expenses							
Fuel	247		247		254		254
Energy purchases	58		58		60		60
Other operation and maintenance	25	$ 168	193		22	$ 162	184
Depreciation	24	72	96		23	69	92
Taxes, other than income		12	12			9	9
Total Operating Expenses	354	252	606		359	240	599
Total	$ 400	$ (252)	$ 148		$ 412	$ (240)	$ 172

(a) Represents amounts excluded from Margins.
(b) As reported on the Statement of Income.

Changes in Non-GAAP Financial Measures

Margins increased by $5 million and decreased by $12 million during the three and six months ended June 30, 2012, compared with the same periods in 2011. The positive impact during the three-month period primarily resulted from $4 million of higher retail margins, as volumes were impacted by increases in production levels at some of KU's larger industrial customers and warmer weather during the three months ended June 30, 2012. Total cooling degree days increased 2% compared to the same period in 2011. The negative impact during the six-month period primarily resulted from $12 million of lower retail margins, as volumes were impacted by unseasonably mild weather during the first four months of 2012. Total heating degree days decreased 21% compared to the same period in 2011.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance expense for the periods ended June 30, 2012, compared with 2011, was due to:

	Three Months	Six Months
Distribution maintenance (a)		$ 7
Other	$ (2)	2
Total	$ (2)	$ 9

(a) Higher distribution maintenance primarily due to a $6 million credit to establish a regulatory asset that was recorded in the first quarter of 2011 related to 2009 storm costs.

Other Income (Expense) - net

The increase (decrease) in Other Income (Expense) for the periods ended June 30, 2012, compared with 2011, was due to:

	Three Months	Six Months
Equity losses from an unconsolidated affiliate	$ (4)	$ (6)
Other	(1)	(1)
Total	$ (5)	$ (7)

Income Taxes

Income taxes decreased by $10 million for the six months ended June 30, 2012, compared with 2011, primarily due to the change in pre-tax income.

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

Financial Condition

Liquidity and Capital Resources

KU had the following at:

	June 30, 2012	December 31, 2011
Cash and cash equivalents	$ 3	$ 31

The $28 million decrease in KU's cash and cash equivalents position was the net result of:

- capital expenditures of $203 million and
- the payment of $48 million of common stock dividends, partially offset by
- cash provided by operating activities of $217 million and
- notes payable with affiliates of $6 million.

KU's cash provided by operating activities increased by $32 million for the six months ended June 30, 2012, compared with 2011, primarily due to a decrease in cash outflows of $27 million due to a reduction in discretionary defined benefit plan contributions.

KU's cash used in investing activities increased by $102 million for the six months ended June 30, 2012, compared with 2011, due to an increase in capital expenditures of $102 million as a result of increased environmental spending, primarily related to landfills, and infrastructure improvements at generation, distribution and transmission facilities.

KU's cash used in financing activities decreased by $38 million for the six months ended June 30, 2012, compared with 2011, primarily due to lower common stock dividends paid to LKE of $20 million in 2012 and a higher notes payable with affiliates.

Credit Facilities

At June 30, 2012, KU's 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	$ 400			$ 400
Letter of Credit Facility	198		$ 198	
Total Credit Facilities (a)	$ 598		$ 198	$ 400

(a) 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 June 30, 2012, KU owed $6 million and at December 31, 2011, there was no balance outstanding.

See Notes 7 and 11 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 June 30, 2012. At June 30, 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 $21 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation and marketing operations.

Capital Expenditures

KU has lowered its projected capital spending for 2012 by approximately $110 million from the previously disclosed $656 million projection included in KU's 2011 Form 10-K. The lower projected capital spending is due mainly to the terminated Bluegrass CTs acquisition discussed in Notes 6 and 8 to the Financial Statements and the status of environmental projects.

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 or LG&E's customers. See Note 14 to the Financial Statements for additional disclosures.

Interest Rate Risk

KU issues debt to finance its operations, which exposes it to interest rate risk. At June 30, 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 June 30, 2012, would increase the fair value of its debt portfolio by $71 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.

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

(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 June 30, 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

The registrant's principal executive officer and principal financial officer have concluded that there were no 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.

As reported in the 2011 Form 10-K, PPL's principal executive officer and principal financial officer concluded that a 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' 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 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. 7 to PPL Employee Stock Ownership Plan, dated May 30, 2012
*4(b)	- Amendment No. 8 to PPL Employee Stock Ownership Plan, dated July 17, 2012
4(c)	- Supplemental Indenture No. 8, dated as of June 14, 2012, among PPL Capital Funding, Inc., PPL Corporation and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N. A. (formerly known as The Chase Manhattan Bank)), as Trustee (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 14, 2012)
[_]10(a)	- PPL Corporation 2012 Stock Incentive Plan (Annex A to Proxy Statement of PPL Corporation, dated April 3, 2012)
*10(b)	- Uncommitted Line of Credit Letter Agreement, dated as of July 1, 2012, between PPL Energy Supply, LLC, the Borrower, and Banco Bilbao Vizcaya Argentaria, S.A., the Bank
*10(c)	- Reimbursement Agreement, dated as of July 1, 2012, between PPL Energy Supply, LLC and Banco Bilbao Vizcaya Argentaria, S.A.
*[_]10(d)	- PPL Corporation Executive Severance Plan, effective as of July 26, 2012
*10(e)	- Letter of Credit Issuance and Reimbursement Agreement, dated as of July 27, 2012, between PPL Energy Supply, LLC and Canadian Imperial Bank of Commerce, New York Agency
*12(a)	- PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
*12(b)	- PPL Energy Supply, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
*12(c)	- PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
*12(d)	- LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
*12(e)	- Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
*12(f)	- Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

<u>Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended June 30, 2012, filed by the following officers for the following companies:</u>

*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)	- PPL 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 June 30, 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)	-	PPL 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: August 8, 2012

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller
(Principal Accounting Officer)

PPL Electric Utilities Corporation
(Registrant)

Date: August 8, 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: August 8, 2012

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

Exhibit 4(a)

AMENDMENT NO. 7
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, 5, and 6; and

NOW, THEREFORE, the Plan is hereby amended as follows:

I. Effective June 23, 2011, 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
21.	PPL EnergyPlus Retail, LLC	June 23, 2011

II. Except as provided in this Amendment No. 7, all other provisions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment No. 7 is executed this _____ day of _____________ , 2012.

PPL SERVICES CORPORATION

By:___________________________________

Stephen R. Russo
Vice President-Human Resources
and Services

AMENDMENT NO. 8
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, 5, 6 and 7; and

NOW, THEREFORE, the Plan is hereby amended as follows:

I. Effective May 30, 2012, Article I, Section 8.1 is amended to read as follows:

ARTICLE I
ADMINISTRATION

8.1 Administration by Employee Benefit Plan Board.

(a) The Plan shall be administered by an Employee Benefit Plan Board, consisting of not fewer than three persons. Members of the Employee Benefit Plan Board shall be appointed from time to time by the Board of Directors of PPL Corporation and shall serve at the pleasure of the Board of Directors of PPL Corporation. Vacancies shall be filled in the same manner as appointments. Any member of the Employee Benefit Plan Board may resign by delivering a written resignation to the Board of Directors or to the Secretary of the Employee Benefit Plan Board effective upon delivery or at any other future date specified therein.

II. Except as provided in this Amendment No. 8, all other provisions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment No. 8 is executed this _______day of _____________, 2012.

Employee Benefit Plan Board

By:____
Karla A. Durn
Chair – Employee Benefit Plan Board

Exhibit 10(b)

EXECUTION VERSION

UNCOMMITTED LINE OF CREDIT LETTER AGREEMENT

dated as of

July 1, 2012

PPL ENERGY SUPPLY, LLC
Two North Ninth Street (GENTW14)
Allentown, PA 18101-1179

Ladies and Gentlemen:

We take pleasure in advising you that we are prepared to extend to you, on an uncommitted basis, the credit facilities described below, subject to and on the terms and conditions set forth in this Uncommitted Line of Credit Letter Agreement (this " Agreement "):

Definitions:	Capitalized terms shall have the meaning specified herein including Exhibit A hereto.
Borrower:	PPL Energy Supply, LLC, a Delaware limited liability company (the " Borrower ").
Bank:	Banco Bilbao Vizcaya Argentaria, S.A. (the " Bank "). For purposes of this Agreement, the Bank is acting through its New York branch (the " Branch ").
Type and Amount of Facility:	Uncommitted revolving letter of credit facility in an aggregate principal amount not to exceed $100,000,000 (the " Facility Amount ") at any one time outstanding. Under the line of credit, the Borrower may obtain letters of credit (each a " Letter of Credit "). No Letter of Credit shall be issued if, after giving effect thereto (i) the aggregate unpaid principal amount of all unreimbursed drawings under Letters of Credit plus (ii) the aggregate amount then available for drawing under all Letters of Credit would exceed the Facility Amount.
Availability Period:	On or prior to the date that is 30 days prior to the Final Maturity Date or, if such date is not a Business Day, the next following Business Day (the " Expiry Date ").
Procedure for Letters of Credit:	Without limiting the uncommitted nature of the facilities described herein, Letters of Credit may be issued on any Business Day upon the giving of three (3) Business Days prior written notice to the Bank stating the date, amount, expiration date and beneficiary of such Letter of Credit, together with all other particulars necessary to complete such Letter of Credit and the drawing certificate to be attached thereto. The amount of each Letter of Credit shall not be less than the Minimum Amount. The Bank may issue the Letters of Credit or arrange for the issuance thereof by another banking institution. Each Letter of Credit must be in form and substance satisfactory to the Bank (in its sole discretion) and, unless otherwise agreed to by the Bank, expire no later than the Expiry Date or, if earlier, on the first anniversary of the issuance of such Letter of Credit. In addition to the foregoing, the Borrower shall have executed and delivered to the Bank a reimbursement agreement substantially in the form of Exhibit B (the " Reimbursement Agreement ") and such applications (each, an " Application " and, together with the Reimbursement Agreement, the " Letter of Credit Documents ") as the Bank shall require in connection with each such Letter of Credit.
Purpose:	General corporate purposes.
Final Maturity Date:	The third anniversary of the date hereof or, if such date is not a Business Day, the next following Business Day (or such later date as the Bank may agree in writing in its sole discretion) (the " Final Maturity Date ").
Reimbursement	Reimbursement of drawings under Letters of Credit shall be made in accordance with the Reimbursement Agreement.
Interest:	Interest on unreimbursed drawings under any Letter of Credit shall accrue and be payable in accordance with the Reimbursement Agreement.

Fees:	As agreed by the parties in connection with each Letter of Credit.
Computation Basis:	Interest, fees and other charges accruing on a per annum basis shall be computed on the number of days actually elapsed on the basis of a 360-day year.
Representations and Warranties:	The Borrower hereby makes to the Bank the representations and warranties made by it as "Borrower" in Article V of the $3,000,000,000 Revolving Credit Agreement dated as of October 19, 2010 by and among PPL Energy Supply, LLC, as Borrower, the Lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent (as amended, restated, supplemented or otherwise modified to the date hereof, the " Syndicated Credit Agreement "). Such representations and warranties are incorporated hereto by reference *mutatis mutandis* as if fully set forth herein. Such representations and warranties shall be deemed made as of each date an Application is submitted and as of each date a Letter of Credit is issued, 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 5.04(c), Section 5.06, Section 5.15 and Section 5.16 of the Syndicated Credit Agreement (as incorporated herein), which shall be deemed only to relate to the matters referred to therein on and as of the date hereof.
Conditions to Effectiveness:	This Agreement shall be effective as of the date hereof, subject to the satisfaction of the following conditions precedent: (i) Each of this Agreement and the Reimbursement Agreement shall have been duly authorized, executed and delivered by the parties thereto; (ii) There shall exist no Default or Event of Default; (iii) All representations and warranties contained herein shall be true and correct in all respects, 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 5.04(c), Section 5.06, Section 5.15 and Section 5.16 of the Syndicated Credit Agreement (as incorporated herein), which shall be deemed only to relate to the matters referred to therein on and as of the date hereof; and (iv) The Bank shall have received a certificate from the Borrower dated the date hereof, signed by a duly authorized officer of the Borrower, substantially in the form of Exhibit C , with appropriate insertions, together with copies of the charter documents of the Borrower and the necessary resolutions of the Borrower and other documents referred to in such certificate.
Conditions to each Issuance of Letters of Credit	The facilities described herein are uncommitted and only available to the Borrower under such conditions and on such terms as may be satisfactory to the Bank. In any event, the Bank will not issue Letters of Credit until the following conditions have been met: (i) After giving effect to the Letter of Credit being requested, (i) the aggregate unpaid principal amount of all unreimbursed drawings under Letters of Credit plus (ii) the aggregate amount then available for drawing under all Letters of Credit shall not exceed the Facility Amount; (ii) Immediately before and after giving effect to such Letter of Credit, there shall exist no Default or Event of Default; (iii) All representations and warranties contained herein shall be true and correct, 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 5.04(c), Section 5.06, Section 5.15 and Section 5.16 of the Syndicated Credit Agreement (as incorporated herein), which shall be deemed only to relate to the matters referred to therein on and as of the date hereof; (iv) The Bank shall have received and accepted a duly completed Application in respect of such Letter of Credit, signed by an authorized officer of the Borrower (which authority shall have been previously certified to the Bank in writing); and (v) Such Letter of Credit shall be satisfactory in form and substance to such Bank. The Bank will not issue any Letter of Credit if: any order, judgment or decree of any governmental authority shall by its terms purport to enjoin or restrain the Bank from issuing such Letter of Credit, or any requirement of law applicable to the Bank or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over the Bank shall prohibit, or request that the Bank refrain from, the issuance of

letters of credit generally or such Letter of Credit in particular or shall impose upon the Bank with respect to such Letter of Credit any restriction, reserve or capital requirement (for which the Bank is not otherwise compensated hereunder) not in effect on the date hereof, or shall impose upon the Bank any unreimbursed loss, cost or expense which was not applicable on the date hereof and which the Bank in good faith deems material to it.

Covenants:

Until all commitments to issue Letters of Credit (if any) have been terminated and all of the Obligations have been satisfied in full, the Borrower shall perform the covenants that apply to it as “Borrower” under Article VI of the Syndicated Credit Agreement. Such covenants are incorporated herein by reference *mutatis mutandis* as if fully set forth herein, provided that (i) Section 6.07(aa) shall permit the granting of Liens (as defined in the Syndicated Credit Agreement) to the Administrative Agent in accordance with the terms of the Syndicated Credit Agreement, (ii) the first sentence of Section 6.06 of the Syndicated Credit Agreement shall be excluded for purposes hereof, (iii) the Borrower shall be deemed to have complied with the obligations set forth in Section 6.01 of the Syndicated Credit Agreement as long as it delivers the requisite information in accordance with the terms of such Section 6.01, (iv) references to Sections of the Syndicated Credit Agreement that are incorporated by reference in this Agreement shall be deemed references to such Sections as so incorporated herein, and (v) for purposes of this Agreement, a new Section 6.07(bb) shall be added at the end of Section 6.07 of the Syndicated Credit Agreement, which shall read as follows:

> “(bb) Liens on cash securing the Obligations hereunder granted to the Bank pursuant to the provisions set forth next to the caption “Cash Collateral.””

Events of Default:

Each of the events set forth in Section 7.01(a) through 7.01(l) (inclusive) of the Syndicated Credit Agreement shall constitute an “ Event of Default ” under this Agreement and the other Letter of Credit Documents, subject to the next following sentence. Such sections are incorporated herein by reference *mutatis mutandis* as if fully set forth herein, provided that (i) references to the “Loans” shall be disregarded for purposes hereof, (ii) references to the “Required Lenders” shall be a reference to the Bank, and (iii) references to “Reimbursement Obligations” shall refer to the Obligations.

Remedies:

If an Event of Default shall have occurred and be continuing, then, and in every such event, while such event is continuing, the Bank may (A) by notice to the Borrower terminate any commitment to issue Letters of Credit, and such commitments shall thereupon terminate, and (B) by notice to the Borrower declare all of the Obligations (whether absolute or contingent and whether or not due at such time) to be, and such Obligations shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind (except as set forth in clause (A) above), all of which are hereby waived by the Borrower and require the Borrower to, and the Borrower shall, cash collateralize all such Obligations in accordance with the provisions set forth next to the caption “Cash Collateral” below; provided, that, in the case of any Default or any Event of Default specified in clauses 7.01(h) or 7.01(i) of the Syndicated Credit Agreement (as incorporated herein) with respect to the Borrower, without any notice to the Borrower or any other act by the Bank, any then outstanding commitments to issue Letters of Credit shall thereupon terminate and all of the Obligations (whether absolute or contingent and whether or not due at such time) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, and the Borrower shall cash collateralize all such Obligations in accordance with the provisions set forth next to the caption “Cash Collateral” below.

No failure by the Bank to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder or under any Letter of Credit Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein and in the Letter of Credit Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

Cash Collateral:

Upon the occurrence of any of the following: (i) the stated amount of issued and outstanding Letters of Credit exceeds the Facility Amount, (ii) an Event of Default, or (iii) the Expiry Date, the Borrower shall cash collateralize all of the Letters of Credit by depositing into a cash collateral account established and maintained (including the investments made pursuant thereto) by the Bank pursuant to a cash collateral agreement in form and substance satisfactory to the Bank an amount in cash equal to the stated amount of the then outstanding Letters of Credit.

Other Incorporated Provisions:

The following additional provisions from the Syndicated Credit Agreement are hereby incorporated by reference *mutatis mutandis* as if fully set forth herein:

- Section 2.16,
- Section 2.17,
- Section 9.01, provided that all notices to the Bank shall be sent to:

  Banco Bilbao Vizcaya Argentaria, S.A., New York Branch
  1345 Avenue of the Americas
  New York, NY 10105
  Attention: Nietzsche Rodricks
  Tel: (212) 728-2380
  Fax: (212) 333-2904
  E-mail: nietzsche.rodricks@bbvany.com

- Section 9.03, but excluding clause (i) of subsection 9.03(a) and the proviso to such subsection,
- Section 9.09,
- Section 9.12, and
- Section 9.14.

Interpretation:

In case of conflict between any provision of the Reimbursement Agreement and the provisions of this Agreement (including, for the avoidance of doubt, those provisions included herein by reference to the Syndicated Credit Agreement), the provisions of this Agreement shall prevail. Letters of Credit issued under this Agreement are expressly intended not to be issued under the Syndicated Credit Agreement (and not to constitute "Letters of Credit" thereunder). This Agreement and any Letters of Credits issued under this Agreement and the Letter of Credit Documents shall not constitute "Loan Documents" for any purpose under the Syndicated Credit Agreement.

Unless otherwise stated in this Agreement, whenever a provision of the Syndicated Credit Agreement is incorporated by reference:

(i) references to "this Agreement," or to any "Notes" or "Loan Documents" shall be deemed a reference to this Agreement and the Letter of Credit Documents,

(ii) such provision shall be deemed to include, mutatis mutandis, all related definitions and interpretive provisions,

(iii) references to "Default" and "Event of Default" shall be deemed a reference to a Default or an Event of Default under this Agreement,

(iv) references to the "Administrative Agent," any "Lender," and any "Issuing Lender" shall be a reference to the Bank,

(v) any requirement that a notice or communication be given or other action be taken among the Administrative Agent, the Lenders, any Issuing Lender, a certain majority of Lenders, the Required Lenders or any party other than the Borrower, no such notice, communication or action shall be required for purposes hereof,

(vi) references therein to "Letters of Credit" shall be deemed references to the Letters of Credit under this Agreement,

(vii) references to the "Escrow Closing Date" and the "Effective Date" shall be deemed references to the date hereof;

(viii) the Bank's "Applicable Lending Office" for purposes hereof, shall be the Branch, and

(ix) references to sections or clauses of the Syndicated Credit Agreement that are incorporated by reference in this Agreement shall be deemed references to such sections or clauses as so incorporated herein.

GOVERNING LAW; JURISDICTION; WAIVER OF IMMUNITY:

THIS AGREEMENT AND THE LETTER OF CREDIT DOCUMENTS SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK. THE BORROWER HEREBY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND OF ANY NEW YORK STATE COURT SITTING IN NEW YORK CITY FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE LETTER OF CREDIT DOCUMENTS, OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY. THE BORROWER IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

JURY WAIVER:	**BORROWER AND BANK WAIVE TRIAL BY JURY IN CONNECTION WITH ANY ACTION OR PROCEEDING OF ANY NATURE WHATSOEVER (INCLUDING, WITHOUT LIMITATION, ANY COUNTERCLAIM, OFFSET OR DEFENSE) ARISING UNDER, OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR THE LETTER OF CREDIT DOCUMENTS.**
Survival; Amendments; etc.	All indemnities set forth herein shall survive the execution and delivery of this Agreement, the issuance of the Letters of Credit, and the expiration or termination of this Agreement. Neither this Agreement nor any Letter of Credit Document nor any terms hereof or thereof may be changed, waived, discharged or terminated unless such change, waiver, discharge or termination is in writing signed by the parties thereto. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. This Agreement and the Letter of Credit Documents represent the final and complete agreement of the parties hereto, and all prior negotiations, representations, understandings, writings and statements of any nature are hereby superseded in their entirety by the terms of this Agreement and the Letter of Credit Documents.
Patriot Act Notice:	The Bank hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)), as amended and supplemented from time to time (the "Patriot Act"), the Bank may be required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow the Bank to identify the Borrower in accordance with the Patriot Act. The Borrower shall provide, to the extent commercially reasonable, such information and take such actions as are reasonably requested by the Bank in order to assist the Bank in maintaining compliance with the Patriot Act.
UNCOMMITTED FACILIY:	**THIS AGREEMENT DOES NOT AND IS NOT INTENDED TO CONSTITUTE OR INCLUDE A LEGALLY BINDING COMMITMENT BY THE BANK TO EXTEND CREDIT TO THE BORROWER. THE LINE OF CREDIT PROVIDED BY THIS AGREEMENT AND THE EXTENSIONS OF CREDIT CONTEMPLATED HEREBY ARE UNCONDITIONALLY CANCELLABLE BY THE BANK AT ANY TIME, WITHOUT CAUSE AND WITHOUT ANY PRIOR NOTICE OF ANY KIND TO THE BORROWER. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING AND NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT OR ANY OTHER LETTER OF CREDIT DOCUMENT, EACH EXTENSION OF CREDIT HEREUNDER IS SUBJECT TO THE PRIOR APPROVAL OF THE BANK'S CREDIT COMMITTEE OR THE OFFICER OR OFFICERS OF THE BANK TO WHOM AUTHORITY FOR SUCH APPROVAL HAS BEEN GRANTED; SUCH APPROVAL MAY BE GRANTED OR WITHHELD IN THE SOLE DISCRETION OF THE APPROPRIATE PARTY, REGARDLESS OF ANY PRIOR DEALINGS OR COURSE OF CONDUCT.**

[SIGNATURE PAGES FOLLOW]

Sincerely,

BANCO BILBAO VIZCAYA ARGENTARIA, S.A., the Bank

By: ___________________________
Name: _________________________
Title: __________________________

By: ___________________________
Name: _________________________
Title: __________________________

[PPL UNCOMMITTED LINE OF CREDIT AGREEMENT]

Accepted and Agreed as of the date first written above:

PPL ENERGY SUPPLY, LLC, the Borrower

By: __________________________
Name: ________________________
Title: _________________________

[PPL UNCOMMITTED LINE OF CREDIT AGREEMENT]

EXHIBIT A
(Additional Definitions)

The following additional terms as used in this Agreement shall have the following meanings:

(a) Business Day shall mean a day on which the main office of the Bank in New York, New York is open for business.

(b) Default shall mean any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

(c) Obligations shall means the obligations and liabilities of the Borrower to the Bank under this Agreement and the Letter of Credit Documents and all of the Bank's claims against the Borrower, whether arising or incurred under this Agreement or the Letter of Credit Documents or relating to any Letter of Credit or otherwise, whether now existing or hereafter incurred, and whether now or hereafter owing to or acquired in any manner by the Bank.

Exhibit 10(c)

EXECUTION VERSION

REIMBURSEMENT AGREEMENT

Dated as of July 1, 2012

TO: BANCO BILBAO VIZCAYA ARGENTARIA, S.A. New York Branch
1345 Avenue of the Americas
New York, New York 10105

Gentlemen:

In consideration of your opening from time to time, at our request and in your discretion in each instance, pursuant to the terms and conditions of this Agreement and the Credit Agreement (defined below), one or more of your Credits (this and other terms used in this Agreement shall have the meaning set forth in Section 21 of this Agreement, unless otherwise defined herein), we hereby agree with you as follows with respect to each Credit now or hereafter opened by you:

1. All drafts or acceptances under or purporting to be under the Credit shall be payable in Dollars. Accordingly, we agree to reimburse you at your office at 1345 Avenue of the Americas, New York, New York or such other office as you may specify in writing (the "Payment Office"), in Dollars, the amount paid on such draft (i) at or before 1:00 P.M. (New York, New York time) on the date the Bank notifies us of such drawing, if such notice is given at or before 10:00 A.M. (New York, New York time) on such date or (ii) at or before 10:00 A.M. (New York, New York time) on the next succeeding Business Day; provided, that no payment otherwise required by this sentence to be made by us at or before 1:00 P.M. (New York, New York time) on any day shall be overdue hereunder if arrangements for such payment satisfactory to the Bank, in its reasonable discretion, shall have been made by us at or before 1:00 P.M. (New York, New York time) on such day and such payment is actually made at or before 3:00 P.M. (New York, New York time) on such day.

2. [DELETED]

3. The Bank may - for the undersigned's account at any time - provide in the Credit or otherwise agree to discount an accepted draft or deferred obligation incurred under such Credit.

4. We agree to pay to you, on demand, your commissions and/or fees applicable to Credits from time to time (those in place as of the date hereof are set forth in schedule 1 hereto) and all charges and expenses (including, without limitation, all of your standard charges relating to letters of credit from time to time in effect and all charges for legal services) charged, paid or incurred by you in connection with any Credit, plus the charges and expenses, if any, of any person relating to the advising, confirming, negotiating, paying, collection, correspondent or similar act with respect to any Credit. In addition, we agree to pay interest on any amounts not paid when due hereunder at a rate per annum equal to 2% above your Prime Lending Rate as in effect from time to time. Interest shall be computed on the number of days actually elapsed on the basis of a 360-day year. All payments due under this Agreement shall be made without deduction or set-off.

5. [DELETED]

6. We agree to the prompt and unconditional payment of all of our obligations and liabilities to you and all of your claims against us arising or incurred under this Agreement or relating to any Credit, whether now existing or hereafter incurred, and whether now or hereafter owing to or acquired in any manner by you (all such obligations, liabilities and claims being hereinafter referred to as the "Obligations"); provided, however, that subject to Section 14 below, the foregoing shall not release you from such liability to us as may be judicially determined in a final, non-appealable judgment by a court of competent jurisdiction pursuant to Section 18 below) against you following reimbursement and/or payment of the Obligations.

7. Except so far as otherwise expressly stated in any Credit, we agree that such Credit shall be subject to the New York Uniform Commercial Code (herein called the "UCC") and to the International Standby Practices 1998 (International Chamber of Commerce Publication No. 590) and any subsequent revision thereof adopted by the International Chamber of Commerce on the date such Credit is issued (the "ISP") (or as an alternative to the ISP if specified by us in writing in any application or request to issue a Credit, the Uniform Customs and Practice for Documentary Credits (2007 Revision), International Chamber of Commerce Publication No. 600 and any subsequent revision thereof adopted by the International Chamber of Commerce on the date such Credit is issued (the "UCP")). Bank's privileges, rights and remedies under the ISP (or the UCP, as the case may be) shall be in addition to, and not in limitation of, its privileges, rights, and remedies expressly provided for herein. The ISP (or the UCP, as the case may be) shall serve, in the absence of proof to the contrary, as evidence of Standard Letter of Credit Practice (as defined below) with respect to matters covered therein. To the extent permitted by applicable law, (i) this Agreement shall prevail in case of conflict between this Agreement, the UCC and/or Standard Letter of Credit Practice, and (ii) the ISP (or the UCP, as the case may be) shall prevail in case of conflict between the ISP (or the UCP, as the case may be) and the UCC or other Standard Letter of Credit Practice.

8. We assume all risks of the acts or omissions of the users of any Credit and all risks of the misuse of any Credit. Neither you nor any of your correspondents shall be responsible for any of the following:

(a) honor of any presentation that substantially complies with a Credit, even if that Credit requires strict compliance by the beneficiary, or in accordance with our waiver of discrepancies and authorization to pay;

(b) electronic presentation, if authorized by any Credit;

(c) the nature, form, sufficiency, accuracy, genuineness, legal effect, or collectability of any draft or any endorsement thereon;

(d) the solvency or responsibility of any party issuing any draft;

(e) honor of drafts, acceptances or other items signed or presented by or on behalf of, or requesting payment to a person or entity that is the purported successor to, the beneficiary, or payment of proceeds to a purported assignee of proceeds;

(f) failure of any advising bank accurately to advise the terms of a Credit;

(g) honor of a presentation on the basis of a forged draft, acceptance, other item or signature or a presentation made in bad faith or as the result of illegal conduct by the beneficiary or a third person;

(h) honor of a presentation up to the amount outstanding on a Credit, even though the draft claims an amount in excess thereof;

(i) honor of a presentation after the expiration date of any Credit notwithstanding that a presentation was made prior to such expiration date and dishonored by you if subsequently you or any court or other finder of fact determines such presentation is in accordance with this Agreement and should have been honored;(j) dishonor of any presentation that does not strictly comply;

(k) retention of proceeds based on a blocking regulation, or assertion of the rights of a purported governmental entity or a third party to the proceeds;

(l) consequences arising from Act of God, weather condition, riot, civil commotion, insurrection, war, political disturbance, strike, lockout, computer hardware or software failure or error in or inaccessibility of data, interruption in electric or telephone service, any censorship, law, control or restriction rightfully or wrongfully exercised by any *de facto* or *de jure* domestic or foreign government or agency, or other causes beyond your or its control, delay or loss in transit of any letter, draft, acceptance or other item, or loss, delay, or error in the transmission of any electronic message, irrespective of the cause of such event;

(m) failure of any draft to bear adequate reference to any Credit, or failure of any person to note the amount of any draft on the reverse side of any Credit or to surrender or to take up any Credit as required by the terms of any Credit, each of which provisions, if contained in any Credit itself, it is agreed may be waived by you;

(n) honoring or dishonoring of any Credit containing a condition that does not state the drafts(s) and/or other item(s) to be presented in compliance therewith, it being solely in your discretion as to whether you wish to disregard any such condition or require evidence of compliance with such condition;

(o) the fact that any instructions, oral or written, given to you purporting to be by us or on our behalf and believed by you in good faith and the exercise of ordinary care to be valid which pertain to the opening of any Credit, any extension, increase or other modification of any Credit or other action to be taken or omitted with reference thereto, were wholly or in part insufficient, erroneous, unauthorized, fraudulent or otherwise invalid; or

(p) any other act or omission as to which banks are relieved from responsibility under the terms of the ISP (or the UCP, as applicable, or such other Standard Letter of Credit Practice that expressly applies to the relevant Credit) or UCC.

The happening of any one or more of the above-mentioned contingencies shall not affect, impair or prevent the vesting of any of your rights or powers under this Agreement, provided that, you will be liable to us for any direct losses, costs, expenses, damages or liabilities suffered or incurred by us as a result of, or attributable to, your gross negligence or willful misconduct (as judicially determined in a final, non-appealable judgment by a court of competent jurisdiction). " Standard Letter of Credit Practice " means any domestic or foreign law or standby letter of credit practices applicable in the city in which you issue the applicable Credit or in which you or any of your correspondents advises, confirms or negotiates such Credit, as the case may be. Such practices shall be (A) of banks that regularly issue standby letters of credits in the particular city, and (B) required or permitted under the ISP (or the UCP, as the case may be). We shall be deemed conclusively to have waived any right to object to any variation between draft(s), acceptance(s), or other item(s) called for by any Credit or instructions by us and any draft(s), acceptance(s) or other item(s) accepted by you or your correspondents and to have ratified and approved such action as having been taken at our direction, unless we, promptly, but not later than one Business Day after receipt of such drafts, acceptances or other items or acquisition of knowledge of such variation, notify you in writing of our objection, specifying in reasonable detail, the reasons therefor; provided, however the foregoing shall not increase your responsibilities pursuant to (a) through (p) of this Section 8.

9. Notwithstanding suggestions or recommendations made by Bank personnel, we are solely responsible for the content of a Credit, and assume all risks that: (a) reference to nondocumentary requirements will be ignored when presentment is made, or may cause a Credit to be interpreted by a court as a guarantee; (b) ambiguous or inconsistent requirements may be interpreted in a manner not intended by us; (c) permitted payment at a foreign location may invoke the application of laws or rules of practice unfamiliar to us; (d) a Credit is not consistent with or does not satisfy the underlying obligation or any other aspect of the transaction between us and the beneficiary; and (e) any other risks that may be imposed on us under the rules and laws to which any Credit is subject. No recommendation or drafting of text or the use or nonuse

or refusal to use text submitted by the undersigned shall affect the undersigned's ultimate responsibility for the final text or its receipt.

10. Unless you otherwise agree in writing, you: (a) may issue a Credit by an appropriate S.W.I.F.T. message type and bind us directly and as indemnitor to the rules applicable to S.W.I.F.T. messages; (b) may select any branch or affiliate of yours or any other bank to act as an advising, confirming, and/or negotiating bank under the law and practice of the place where it is located; (c) may assume, unless honor of a presentation is enjoined by a court of competent jurisdiction, that such presentation or other demand or request is nonfraudulent; (d) need not ascertain the authenticity or authority of any purported beneficiary signature, even if you have previously requested a signature guaranty or if in other transactions the beneficiary is a customer or its signature or the authority of any signatory is otherwise known or should be known to you; (e) may, but need not, notify us of your receipt of a request for an amendment or assignment of proceeds, receipt of a presentation, detection of a discrepancy, notification of actions taken to cure, dishonor, or other action, inaction, or communication with or with respect to the beneficiary (other than your decision to honor the presentation); and (f) need not consent to a proposed amendment of any Credit; and (g) may take at least three business days (as defined in the ISP) or banking days (as defined in the UCP), as applicable, to examine a presentation. Your action in one or more instances shall not waive your right, without notice to us, to use your discretion differently in other instances.

11. We agree that the balance of every account of ours with you and each of our claims against you (including, in each case, any of your offices or branches) existing from time to time may - at your option and without notice of any kind (presentment, protest and other notice of any kind being hereby waived) - be appropriated and applied toward, or set off against, any of the Obligations and we will continue to be liable for any deficiency.

12. [DELETED]

13. The indemnity provisions provided for the benefit of the Bank in the Credit Agreement (as incorporated by reference to Section 9.03 of the Syndicated Credit Agreement (as defined in the Credit Agreement)) include, without limitation, instances in which (a) a beneficiary seeks to enforce a Credit or any advice thereof, sue for wrongful dishonor, seek a judicial determination, or bring any other action or proceeding relating thereto; (b) an advising bank, confirming bank, negotiating bank, or other intermediary seeks to be reimbursed, indemnified or compensated; (c) a third party seeks to enforce our rights or the rights of any beneficiary, negotiating bank or other intermediary, transferee, assignee of proceeds, or holder of a draft, acceptance or other item, or to question, delay, or prevent the honor of any Credit; (d) a government (or other *de facto* or *de jure* political body) or governmental agency seeks to regulate, investigate, delay, or prevent honor of a Credit; (e) you undertake the preparation, negotiation, amendment, or "workout"/restructuring of this Agreement or any Credit; or seek to determine, protect, or enforce your rights and remedies under any Credit, this Agreement, or any security agreement, guaranty, credit support, or other undertaking entered into in connection with this Agreement or any Credit; (f) you respond to any notice of alleged fraud, forgery, or illegality in any presentation, including active defense by you in any action in which we seek an injunction against presentation, honor, or payment of any Credit or draft; (g) you are obligated by a court order to pay legal fees or court costs paid, or incurred by us, the beneficiary, or any other party in any dispute involving any Credit, any draft or this Agreement; (h) we fail to duly perform our agreements herein; and/or (i) there occurs any action taken or omitted by you or any such correspondent at our request. In furtherance and extension and not in limitation of the specific provisions set forth in this Agreement, any action taken or omitted by you or by any correspondent of yours, under or in connection with any Credit or the related drafts, other items or property, shall be binding upon us and shall not put you or your correspondent under any resulting liability to us, provided, that we shall not be required to indemnify the Bank for any claims, damages, losses, liabilities, costs or expenses, and, subject to section 14, we shall have a claim against the Bank for direct (but not consequential) damages suffered by us, to the extent found by a court of competent jurisdiction in a final, non-appealable judgment or order to have been caused by (i) the willful misconduct or gross negligence of the Bank in determining whether a request presented under any Credit complied with the terms of such Credit or (ii) the Bank's failure to pay under any Credit after the presentation to it of a request strictly complying with the terms and conditions of such Credit. Our agreements in this Section 13 shall survive any payment of the Obligations and any termination of this Agreement.

14. (a) You shall not be liable to us in contract, tort, or otherwise, for any special, indirect, consequential, punitive, or exemplary damages, however arising, whether for wrongful honor, wrongful dishonor, or any other action taken or omitted with respect to any Credit or this Agreement. (b) We must take all reasonable and appropriate action to reduce the amount of damages to be claimed against you. (c) Our aggregate remedies against you for wrongfully honoring a presentation are limited to the amount paid or required to be paid by us with respect to that presentation. (d) We hereby waive the right to obtain an injunction against honor of any Credit or any draft drawn thereunder (or any form of legal relief whose purpose is to prevent payment to the beneficiary) once you or any bank has accepted or negotiated a draft drawn thereunder.

15. [DELETED]

16. [DELETED]

17. Your options, powers and rights specified herein are in addition to those otherwise created or existing.

18. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS TO BE PERFORMED ENTIRELY WITHIN THE STATE OF NEW YORK, INCLUDING ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE. ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT AGAINST US MAY BE BROUGHT IN THE COURTS OF THE STATE OF NEW YORK LOCATED IN THE COUNTY OF NEW YORK, OR IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK, AS YOU MAY ELECT; AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, THE UNDERSIGNED HEREBY ACCEPTS, FOR THE UNDERSIGNED AND IN RESPECT OF THE UNDERSIGNED'S PROPERTY, GENERALLY AND UNCONDITIONALLY THE JURISDICTION AND VENUE OF SUCH COURTS AND HEREBY WAIVES ANY OBJECTION THAT THE UNDERSIGNED MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH ACTION OR PROCEEDING IN SUCH COURT AND ANY CLAIM THAT ANY SUCH

ACTION OR PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. NOTHING CONTAINED HEREIN SHALL AFFECT THE RIGHT TO SERVE PROCESS IN ANY MANNER PERMITTED BY LAW OR TO COMMENCE ANY LEGAL ACTION OR PROCEEDING IN ANY OTHER JURISDICTION. ANY ACTION OR PROCEEDING BY US AGAINST YOU OR ANY OF YOUR CORRESPONDENTS RELATING TO THIS AGREEMENT OR ANY CREDIT OR ANY OTHER TRANSACTION CONTEMPLATED BY THIS AGREEMENT SHALL BE BROUGHT IN THE COURTS MENTIONED ABOVE IN THIS SECTION AND SUCH COURTS SHALL HAVE EXCLUSIVE JURISDICTION WITH RESPECT TO ANY SUCH ACTION OR PROCEEDING.

19. All provisions of this Agreement are subject to variation only by your and the undersigned's express written agreement.

20. This Agreement is that certain "Reimbursement Agreement" referenced in the Credit Agreement and constitutes a "Letter of Credit Document" thereunder. All Credits issued pursuant to this Agreement shall constitute "Letters of Credit" under the Credit Agreement. This Agreement does not obligate you to issue any proposed Credit for which application has been made until you have agreed in writing to do so and we have complied with any requirement relating to conditions precedent, collateral security, guaranty or credit support established for that Credit.

21. The following terms and provisions shall apply to this Agreement:

The meaning of any term in this or any other Section of this Agreement expressed in the singular shall apply, mutatis mutandis , to the same term expressed in the plural and vice versa ; all definitions of agreements, notes or other instruments shall mean such agreements, notes or other instruments as modified or amended in accordance with the terms thereof and all definitions of promissory notes shall include all promissory notes issued in replacement or substitution thereof.

" Agreement " shall mean this Reimbursement Agreement.

" Bank " shall mean Banco Bilbao Vizcaya Argentaria, S.A. and its successors and assigns.

" Business Day " shall have the meaning provided in the Credit Agreement.

" Credit Agreement " shall mean the Uncommitted Line of Credit Letter Agreement dated the date hereof between the Bank and us, as Borrower, as amended from time to time.

" Credits " shall mean all standby letters of credit issued by, or caused to be issued by, the Bank for our account pursuant to this Agreement and the Credit Agreement.

" Dollars " or " $ " means lawful currency of the United States of America.

" draft " means and includes any draft or drawing certificate or statement and any and all documents and instruments required to be presented for payment under any Credit and includes a written request, order or demand for the payment of money, whether or not negotiable.

" property " includes (i) goods and merchandise as well as any and all documents relative to, and any right to or interest in, any goods and merchandise or documents and (ii) all instruments, drafts, securities, security entitlements, financial assets, choses in action and any and all other forms of property, whether real or personal.

" Prime Lending Rate " shall mean the rate announced by the Bank from time to time at its principal office as its prime lending rate; any change in the interest rate resulting from a change in the Prime Lending Rate shall be effective on the effective date of each change in such Prime Lending Rate so announced by the Bank; it is understood and agreed that such rate is a reference rate and does not necessarily represent the lowest or best rate actually charged to any customer.

" written " or " in writing " means notice given in any form of writing however transmitted (whether by mail, telex, telefax, electronic or otherwise).

22. WAIVER OF JURY TRIAL . EXCEPT TO THE EXTENT PROHIBITED BY LAW WHICH CANNOT BE WAIVED, WE AND YOU HEREBY WAIVE TRIAL BY JURY IN CONNECTION WITH ANY ACTION OR PROCEEDING OF ANY NATURE WHATSOEVER ARISING UNDER, OUT OF OR IN CONNECTION WITH THIS AGREEMENT, ANY CREDIT OR ANY TRANSACTION CONTEMPLATED HEREBY OR THEREBY AND IN CONNECTION WITH ANY CLAIM, COUNTERCLAIM, OFFSET OR DEFENSE ARISING IN CONNECTION WITH SUCH ACTION OR PROCEEDING, WHETHER ARISING (X) IN CONNECTION WITH ANY ACTION INSTITUTED BY OR ON BEHALF OF YOU, US OR ANY OTHER PERSON OR (Y) UNDER STATUTE (INCLUDING ANY FEDERAL OR STATE CONSTITUTION) OR UNDER THE LAW OF CONTRACT, TORT OR OTHERWISE.

23. Patriot Act Notice . The undersigned hereby acknowledges that it has been notified by the Bank that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)), as amended and supplemented from time to time (the "Patriot Act"), the Bank may be required to obtain, verify and record information that identifies the undersigned, which information includes the name and address of the undersigned and other information that will allow the Bank to identify the undersigned in accordance with the Patriot Act. The undersigned shall provide, to the extent commercially reasonable, such information and take such actions as are reasonably requested by the Bank in order to assist the Bank in maintaining compliance with the Patriot Act.

[Signature pages follow]

PPL ENERGY SUPPLY, LLC

By________________________
Name:
Title:

[PPL REIMBURSEMENT AGREEMENT]

ACCEPTED AND AGREED as of the date first written above:

BANCO BILBAO VIZCAYA ARGENTARIA, S.A.

By__________________________
Name:
Title:

By__________________________
Name:
Title:

SCHEDULE 1

INDICATIVE FEE SCHEDULE AS OF July 1, 2012

Applicable Letter of Credit fees are indicated in the table below and are based on PPL ENERGY SUPPLY, LLC's ratings of BBB from S&P and Baa2 from Moody's. The below Letter of Credit fees are provided for informational purposes only and are subject to change at any time prior to issuance of a Letter of Credit.

Borrower's Ratings	**Applicable Percentage for Letter of Credit Fees**	**Applicable Percentage for Letter of Credit Fees**	**Applicable Percentage for Letter of Credit Fees**
Letter of Credit Tenor	Less than 1 year	1 - 2 years	Up to 3 years
BBB from S&P & Baa2 from Moody's	1.000%	1.100%	1.200%

Exhibit 10(d)

PPL CORPORATION
EXECUTIVE SEVERANCE PLAN

THIS SEVERANCE PLAN, adopted by PPL Corporation, a Pennsylvania corporation, is being established to provide for the payment of severance benefits to certain of its eligible employees in the event of an involuntary termination of employment meeting the conditions described herein.

Section 1. Definitions . Unless the context clearly indicates otherwise, when used in this Plan:

(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) “Base Salary” means Employee’s annual rate of base salary in effect on the date in question.

(d) “Board” means the Board of Directors of PPL Corporation.

(e) "Cause" for termination by the Company of the Employee's employment shall mean the occurrence of any of the following:

(i) the Employee’s engagement in misconduct which is materially injurious to the Company or any of its Affiliates;

(ii) the Employee’s insubordination after clear and lawful direction;

(iii) the Employee’s commission of a felony in the performance of duties to the Company of any of its Affiliates;

(iv) the Employee’s commission of an act or acts constituting any fraud against or embezzlement from the Company or any of its Affiliates;

(v) the Employee’s material breach of any confidentiality or non-competition covenant entered into between the Employee and the Company or any of its Affiliates;

(vi) the Employee’s employment with a competitor while employed by the Company or any of its Affiliates; or

(vii) egregious violation of Company policy resulting in termination.

The determination of the existence of Cause shall be made by the Committee in good faith, which determination shall be conclusive for the purpose of this Plan.

(f) "Code" shall mean the Internal Revenue Code of 1986, as amended, or any successor thereto, and the regulations and guidance promulgated thereunder.

(g) “Committee” means the Chief Executive Officer of PPL Corporation and the Vice President of Human Resources & Services of PPL Services Corporation, or such other person or persons designated by the Compensation, Governance and Nominating Committee of the Board (the “Compensation Committee”) from time to time; provided, however, that if any member of the Committee is directly affected by an exercise of discretion, the Compensation Committee shall act as the Committee with respect to that matter.

(h) “Company" shall mean PPL Corporation and shall include its subsidiaries and any successor to its business and/or assets which assumes and agrees to perform this Plan by operation of law, or otherwise. For purposes of this Plan, an Employee'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.

(i) “Eligible Employee” means an Employee whose employment with their Employer is terminated due to a Qualifying Termination; provided, however, that, notwithstanding the foregoing:

(1) the term “Eligible Employee” shall not include:

(i) any Employee who is eligible to receive in connection with the same Qualifying Termination severance or similar type payments under the provisions of any other severance pay plan of, or any agreement (including but not limited to any employment or severance agreement) with, the Employer or an Affiliate;

(ii) a “specific professional” or part time Employee, of an Employer or any other Employee who is not a regular, full-time Employee (as determined by the Employer in accordance with employment policies and practices established by such Employer);

(iii) any Employee who is not, as of the date immediately prior to his or her termination of employment, being paid on the Employer's U.S.A. payroll;

(iv) any individual performing services for an Employer who is treated by such Employer as a leased worker or an independent contractor; or

(v) an Employee who is a member of a collective bargaining unit with which an Employer negotiates and with respect to whom no coverage under this Plan has been provided by a collective bargaining agreement; and

(2) the employment of an Employee shall not be considered to have been "involuntarily terminated" (and therefore will not be deemed to have a Qualifying Termination) in any of the following circumstances:

(i) an Employee whose employment with an Employer is terminated by reason of a transfer to the employ of another Employer or an Affiliate;

(ii) an Employee whose employment with an Employer is terminated by reason of a transfer to the employ of another entity into which the Employer is merged or otherwise consolidated; provided such entity adopts this Plan;

(iii) an Employee whose employment is terminated upon the expiration of a leave of absence by reason of his or her failure to return to work at such time;

(iv) an Employee whose employment with an Employer is terminated in connection with the sale of stock or the sale by such Employer of all or part of its assets if (i) such Employer determines in its sole discretion that either (A) in connection with such sale such Employee was offered employment for a comparable position at a comparable salary, annual bonus opportunity and employee benefits with the purchaser of the Employer's stock or assets or (B) such Employee voluntarily elected not to participate in the selection process for such employment and (ii) the purchaser adopts this Plan; or

(v) an Employee whose employment is terminated due to death or Total Disability or voluntary termination.

(j) "Employee" means an employee of an Employer who holds one of the position classifications specified in Schedule A annexed hereto or an equivalent position, as determined from time to time for individual positions by the Committee.

(k) "Employer" means the Company and any other Affiliate of the Company which adopts this Plan with the consent of their Board.

(l) "Plan" means this PPL Corporation Executive Severance Plan as in effect from time to time.

(m)"Qualifying Termination" means a termination of an Eligible Employee's employment by the Employer without Cause.

(n) "Release" means a release to be signed by an Eligible Employee in such form as the Company shall determine, which shall, to the extent permitted by law, waive all claims and actions against the Employers and Affiliates and such other related parties and entities as the Company chooses to include in the release except for claims and actions for benefits provided under the terms of this Plan (which Release is not revoked by the Eligible Employee).

(o) "Total Disability" means the Employee is unable to perform with or without reasonable accommodation in all material respects his or her duties and responsibilities to the Company and its Affiliates, by reason of a physical or mental disability or infirmity, which inability is reasonably expected to be permanent and has continued for a period of 12 consecutive months, as reasonably determined by the Company.

Section 2. Severance Benefits . Each Eligible Employee who executes a Release prescribed by the Company within 45 days following a Qualifying Termination (and who does not revoke such Release) shall be entitled to the lump sum cash payment and continuing benefits set forth in Schedule A that corresponds to the Eligible Employee's position classification as of the date of termination. In addition to the severance benefits described in Schedule A, each Eligible Employee shall be entitled to receive any unpaid Base Salary through the date of such Eligible Employee's termination, and prompt reimbursement of any unreimbursed expenses properly incurred by such Eligible Employee in accordance with Company policies prior to the date of such Eligible Employee's termination. Such Eligible Employee shall also receive such other benefits, if any, to which such Eligible Employee may be entitled pursuant to the terms and conditions of the employee compensation, incentive, equity, benefit or fringe benefit plans, policies or programs of the Company, other than any Company severance policy.

Section 3. Form and Time of Payment . The cash severance pay benefits payable to an Eligible Employee by his or her Employer under Section 2 shall be paid to such Eligible Employee in a single lump sum less applicable withholdings, except as provided pursuant to

Section 4, within 60 days after the Eligible Employee's date of Qualifying Termination; provided, however, that if such 60-day period begins in one calendar year and ends in a second calendar year, then such severance pay benefits shall not be paid until the second of such two calendar years (regardless of whether the Eligible Employee delivers the Release in the first calendar year or in the second calendar year).

Section 4. Tax and Other Withholding. Each Employer shall withhold from any amount payable to an Eligible Employee pursuant to this Plan, and shall remit to the appropriate governmental authority or the Company, any income, employment or other tax the Employer is required by applicable law to so withhold and remit on behalf of such Eligible Employee, and any amounts owed to the Company.

Section 5. Plan Administration. This Plan shall be administered by the Committee. The Committee shall have discretionary and final authority to interpret and implement the provisions of this Plan and to determine eligibility for benefits under the Plan. The Committee shall perform all of the duties and exercise all of the powers and discretion that the Committee deems necessary or appropriate for the proper administration of this Plan. Every interpretation, choice, determination or other exercise by the Committee of any power or discretion given either expressly or by implication to it shall be conclusive and binding upon all parties having or claiming to have an interest under this Plan or otherwise directly or indirectly affected by such action, without restriction, however, upon the right of the Committee to reconsider or redetermine such action. The Committee may adopt such rules and regulations for the administration of this Plan as are consistent with the terms hereof, and shall keep adequate records of its proceedings and acts. The Committee may employ such agents, accountants and legal counsel (who may be agents, accountants and legal counsel for an Employer) as may be appropriate for the administration of the Plan. All reasonable administration expenses incurred by the Committee in connection with the administration of the Plan shall be paid by the Employer.

Section 6. Claims Procedure. If any person (hereinafter called the "Claimant") feels he or she is being denied a benefit to which he or she is entitled under this Plan, such Claimant may file a written claim for said benefit with the Committee. Within 90 days of the receipt of such claim the Committee shall determine and notify the Claimant as to whether he or she is entitled to such benefit. Such notification shall be in writing and, if denying the claim for benefit, shall set forth the specific reason or reasons for the denial, make specific reference to the pertinent Plan provisions, and advise the Claimant that he or she may, within 60 days of the receipt of such notice, request in writing to appear before the Committee or its designated representative for a hearing to review such denial. Any such hearing shall be scheduled at the mutual convenience of the Committee or its designated representative and the Claimant, and at such hearing the Claimant and/or his or her duly authorized representative may examine any relevant documents and present evidence and arguments to support the granting of the benefit being claimed. The final decision of the Committee with respect to the claim being reviewed shall be made within 60 days following the hearing thereon, and the Committee shall in writing notify the Claimant of its final decision, again specifying the reasons therefor and the pertinent Plan provisions upon which such decision is based. The final decision of the Committee shall be conclusive and binding upon all parties having or claiming to have an interest in the matter being reviewed. The Claimant shall have the right to be provided, on request and free of charge, reasonable access to and copies of all documents, records, and other information relevant to the claim for benefits. All documents, comments, records, and other information will be considered for review, regardless of whether such information was previously considered or not in the initial denial of a claim.

Section 7. Plan Amendment and Termination. The Company shall have the right and power at any time and from time to time to amend this Plan, in whole or in part, by written document executed by its duly authorized representative and at any time to terminate this Plan; provided, however, that no such amendment or termination shall reduce the amount of severance pay payable under this Plan to a former Employee whose employment with an Employer terminated prior to the date of such amendment or termination, or defer the date for the payment of such former Employee's benefit hereunder , without the consent of such former Employee.

Section 8. Nature of Plan and Rights. This Plan is an unfunded employee welfare benefit plan and no provision of this Plan shall be deemed or construed to create a trust fund of any kind or to grant a property interest of any kind to any Employee or former Employee. Any payment which becomes due under this Plan to an Eligible Employee shall be made by his or her Employer out of its general assets, and the right of any Eligible Employee to receive a payment hereunder from his or her Employer shall be no greater than the right of any unsecured general creditor of such Employer.

Section 9. No Right to Employment. Except as expressly provided herein, this Plan shall not interfere in any way with the right of the Company to reduce Employee's compensation or other benefits or terminate Employee's employment, with or without Cause. Any rights that Employee shall have in that regard shall be as set forth in any applicable employment agreement between Employee and the Company.

Section 10. Spendthrift Provision. No right or interest of an Eligible Employee under this Plan may be assigned, transferred or alienated, in whole or in part, either directly or by operation of law, and no such right or interest shall be liable for or subject to any debt, obligation or liability of such Eligible Employee.

Section 11. Applicable Law. This Plan shall be governed and construed in accordance with the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and, where not pre-empted by ERISA, the laws of the Commonwealth of Pennsylvania, without regard to conflicts of laws principles thereof.

Section 12. Effectiveness. This Plan shall be effective as of the date of adoption by the Compensation Committee on July 26, 2012 and shall remain in effect until terminated pursuant to Section 7 of this Plan.

Section 13. Section 409A of the Code.

(a) Although the Employer does not guarantee to an Eligible Employee any particular tax treatment relating to the payments and benefits under this Plan, 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 Plan 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 Employer be liable for, or be required to indemnify the Eligible Employee for, any liability of the Eligible Employee 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 Plan 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 Plan, 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 (iii) 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 (iv) such payments shall be made on or before the last day of the Eligible Employee’s taxable year following the taxable year in which the expense was incurred.

(d) Whenever a payment under this Plan specifies a payment period with reference to a number of days (e.g., “payment shall be made within sixty (60) days following the date of termination”), the actual date of payment within the specified period shall be within the sole discretion of the Employer.

(e) If under this Plan, 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 Eligible Employee 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 Eligible Employee 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 Eligible Employee’s death. Any payments to which the Eligible Employee would otherwise be entitled during such non-payment period will be accumulated and paid or otherwise provided to the Eligible Employee on the first day of the seventh month following such date of termination, or if earlier, within 30 days of the Eligible Employee’s death to his or her surviving spouse (or to the Eligible Employee’s estate if the Eligible Employee’s spouse does not survive the Eligible Employee).

IN WITNESS WHEREOF, this Plan has been executed as of this 26 th day of July, 2012.

PPL CORPORATION

By: ______________________________
William H. Spence
Chairman, President and Chief Executive Officer

Schedule A

	Severance Benefits
Position Classification Tier 1	• Severance pay : 2 years of Eligible Employee's Base Salary • Group benefit continuation : For Employee and covered family members, a lump sum amount, in cash, equal to the aggregate amount of COBRA premiums otherwise payable by Eligible Employee (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). • Career services : Outplacement assistance at the level offered to executive level employees for a period of 2 years, up to a maximum in fees of $50,000.
Position Classification Tier 2	• Severance pay : 12 months of Eligible Employee's Base Salary • Group benefit continuation : For Employee and covered family members, a lump sum amount, in cash, equal to the aggregate amount of COBRA premiums otherwise payable by Eligible Employee (based upon the COBRA rate in effect on the date of such termination of employment) for the twelve (12) month period immediately following the date of termination (assuming for this purpose that COBRA continuation coverage would have been available for such twelve (12) month period). • Career services : Outplacement assistance at the level offered to executive level employees for a period of 12 months, up to a maximum in fees of $25,000.

Exhibit 10(e)

EXECUTION VERSION

LETTER OF CREDIT ISSUANCE
AND REIMBURSEMENT AGREEMENT

between

PPL ENERGY SUPPLY, LLC

and

CANADIAN IMPERIAL BANK OF COMMERCE, NEW YORK AGENCY

dated as of
July 27, 2012

CONTENTS

THIS LETTER OF CREDIT ISSUANCE AND REIMBURSEMENT AGREEMENT dated as of July 27, 2012, by and between PPL ENERGY SUPPLY, LLC, a Delaware limited liability company (the " Company "), and Canadian Imperial Bank of Commerce, New York Agency (" CIBC ").

ARTICLE I

SCOPE OF AGREEMENT

The Company has requested CIBC to issue one or more standby letters of credit in an Aggregate Stated Amount not to exceed the Maximum Stated Amount, for the account of the Company to support the Company's obligation to post collateral in support of its energy hedging activities. CIBC may (but shall not be obligated to) issue from time to time letters of credit for such purpose, and the Company and CIBC agree that the issuance of such letters of credit, and the obligations of the Company to CIBC with respect thereto, shall be governed by the terms and conditions of this Agreement.

ARTICLE II

DEFINITIONS; INTERPRETATION

Section 2.1 Defined Terms . For the purposes of this Agreement, unless the context otherwise requires, the following terms shall have the respective meanings assigned to them in this Article II or in the section or recital referred to:

" Affiliate " means, with respect to any Person, any other Person who is directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through the ownership of stock or its equivalent, by contract or otherwise.

" Aggregate Stated Amount " means, as of any date, the aggregate Stated Amount of all Letters of Credit issued hereunder that remain outstanding as of such date.

" Agreement " shall mean this Letter of Credit Issuance and Reimbursement Agreement, together with all amendments, waivers and modifications, and with all Letter of Credit Requests submitted by the Company.

" Applicable Lending Office " means CIBC's office located at its address set forth in Section 9.1 or such other office as CIBC may hereafter designate by notice to the Company.

" Applicable Rate " means, as of any day, a rate per annum equal to the sum of (a) the higher of (i) the Prime Rate for such day, and (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day, plus (b) 2.00%.

" Availability Termination Date " means the earlier of (i) the date that is the first anniversary of the Closing Date, (ii) the date that the commitment of CIBC under the Existing Credit Agreement terminates or is reduced to zero, (iii) the date that shall have been advised as such date to the Company in writing by CIBC, being a date not less than sixty (60) days after an effective amendment or waiver of any provision of the Existing Credit Agreement, and (iv) the date referred in Section 8.1 .

" Available Amount " means, as of any date, the sum of the Maximum Stated Amount minus the Aggregate Stated Amount as of such date.

" Bankruptcy Code " means Title 11 of the United States Code, as now or hereafter in effect, or any successor thereto.

" Business Day " means a day, other than a Saturday or a Sunday, on which commercial banks are not authorized or required to be closed in New York, New York and Toronto, Canada.

" Cash Collateralize " means the provision of funds to CIBC by the Company by way of a deposit account at CIBC, or a blocked account arrangement for the sole benefit of CIBC, or such other arrangements as shall be acceptable to CIBC in its sole discretion.

" Change of Control " has the meaning set forth in the Existing Credit Agreement.

" CIBC " has the meaning set forth in the preamble .

" Closing Date " means the date that all the conditions in Section 5.1 shall have been satisfied, or waived by CIBC.

" Code " or " Internal Revenue Code " shall mean the Internal Revenue Code of 1986, as amended from time to time.

" Company " shall have the meaning assigned to it in the preamble hereof.

" Consolidated Subsidiaries " has the meaning set forth in the Existing Credit Agreement.

" Credit Obligation " shall mean any and all obligations (including, without limitation, Reimbursement Obligations) of the Company to CIBC arising under or related to this Agreement, including, but not limited to, all present or future taxes, levies, imposts, duties, deductions, charges, liabilities or withholdings imposed, levied, collected, withheld or assessed by any governmental authority on CIBC.

" Debt " has the meaning set forth in the Existing Credit Agreement.

" Default " means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

" Dollars " " $ " and " USD " shall mean the lawful currency of the United States of America.

" Drawing " shall mean a demand for payment under any Letter of Credit in accordance with its terms.

" Environmental Laws " has the meaning set forth in the Existing Credit Agreement.

" Environmental Liability " has the meaning set forth in the Existing Credit Agreement.

" ERISA " means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

" ERISA Group " has the meaning set forth in the Existing Credit Agreement.

" Event of Default " shall have the meaning assigned to it in Section 8.1 hereof.

" Existing Credit Agreement " means that certain $3,000,000,000 Revolving Credit Agreement, dated as of October 19, 2010, by and among the Company, the lenders from time to time party thereto, and Wells Fargo Bank, National Association, as amended by Amendment No.1 thereto, dated as of October 19, 2011, without giving effect to any further amendments, waivers or consents in relation thereto, other than such amendments, waivers and consents as shall have been affirmatively granted by CIBC.

" FATCA " means Sections 1471 through 1474 of the Internal Revenue Code and any regulations (whether final, temporary or proposed) that are issued thereunder or official government interpretations thereof.

" Federal Funds Rate " means, for any day, the rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (i) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average of quotations for such day on such transactions received by CIBC from three federal funds brokers of recognized standing selected by CIBC.

" Foreign Subsidiary " means a Subsidiary which is not formed under the laws of the United States or any territory thereof.

" GAAP " means United States generally accepted accounting principles applied on a consistent basis.

" Governmental Authority" means any federal, state or local government, authority, agency, central bank, quasi-governmental authority, court or other body or entity, and any arbitrator with authority to bind a party at law.

" Guarantee " has the meaning set forth in the Existing Credit Agreement.

" Hazardous Substance " has the meaning set forth in the Existing Credit Agreement.

" Indemnitee " has the meaning set forth in Section 9.3 .

" Letter of Credit " shall mean any letter of credit issued pursuant to this Agreement, which letters of credit shall be documented in CIBC's customary form.

" Letter of Credit Request " means a request and letter of credit application in CIBC's customary form, duly completed and delivered by the Company to CIBC in accordance with Section 3.1 hereof.

" Material Adverse Effect " means (i) any material adverse effect upon the business, assets, financial condition or operations of the Company or the Company and its Subsidiaries, taken as a whole; (ii) a material adverse effect on the ability of the Company to perform its obligations under this Agreement, or (iii) a material adverse effect on the validity or enforceability of this Agreement.

" Material Debt " means Debt of the Company and/or one or more of its Restricted Subsidiaries in a principal or face amount exceeding $40,000,000.

" Material Plan " has the meaning set forth in the Existing Credit Agreement.

“ Maximum Stated Amount ” means $75,000,000.

“ Multiemployer Plan ” has the meaning set forth in the Existing Credit Agreement.

“ OFAC ” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“ Other Taxes ” has the meaning set forth in Section 4.7(b) .

“ PBGC ” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“ Person ” shall mean an individual, sole proprietorship, partnership, joint venture, association, trust, estate, business trust, corporation, not-for-profit corporation, sovereign government or agency, instrumentality, or political subdivision thereof, or any similar entity or organization.

“ Prime Rate ” means the rate of interest publicly announced by CIBC from time to time as its Prime Rate for US credits.

“ Reimbursement Obligations ” means at any time all obligations of the Company to reimburse CIBC pursuant to Section 4.1 for amounts paid by CIBC in respect of drawings under Letters of Credit.

“ Restricted Subsidiaries ” means each Subsidiary listed on Schedule 6.11 and each other Subsidiary designated by the Company as a “Restricted Subsidiary” in writing to CIBC, in either case, for so long as such Restricted Subsidiary shall be a direct Wholly Owned Subsidiary of the Company or a direct Wholly Owned Subsidiary of a Restricted Subsidiary.

“ Sanctioned Entity ” shall mean (i) an agency of the government of, (ii) an organization directly or indirectly controlled by, or (iii) a Person resident in, a country that is subject to a sanctions program identified on the list maintained by OFAC and available at *http://www.treas.gov/offices/enforcement/ofac/sanctions/index.html* , or as otherwise published from time to time as such program may be applicable to such agency, organization or Person.

“ Sanctioned Person ” shall mean a Person named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at *http://www.treas.gov/offices/enforcement/ofac/sdn/index.html* , or as otherwise published from time to time.

“ Stated Amount ” shall mean, as of any date and with respect to any Letter of Credit, the aggregate maximum amount that is available to be paid under such Letter of Credit.

“ Subsidiary ” means, with respect to any Person, another Person the majority of the outstanding equity interest of which are owned, directly or indirectly, by such Person or one or more other Subsidiaries of such Person.

“ Taxes ” has the meaning set forth in Section 4.7(a) .

“ Termination Date ” means the date that is the second anniversary of the Closing Date.

“ Unreimbursed Amount ” means the principal amount of all Drawings in respect of which the Company shall not have satisfied its Reimbursement Obligations.

“ Wholly Owned Subsidiary ” has the meaning set forth in the Existing Credit Agreement.

Section 2.2 Other Definitional Provisions .

(a) All terms defined in this Agreement shall have the above-defined meanings when used in any certificate, report or other document made or delivered pursuant to this Agreement, unless the context therein shall otherwise require.

(b) Defined terms used in the singular shall import the plural and vice versa.

(c) The terms “hereof,” “herein,” “hereunder,” and similar terms when used in this Agreement shall refer to this Agreement as whole and not to any particular provisions of this Agreement.

(d) Any reference in this Agreement to a document or an instrument shall mean such document or instrument and all exhibits thereto as amended or supplemented from time to time. Any reference in this Agreement to any Person as a party to any document or instrument shall include its successors and assigns to such status.

Section 2.3 Incorporation by Reference to Existing Credit Agreement . The following rules of construction shall apply:

(a) Terms defined in the Existing Credit Agreement and used in the provisions incorporated herein, unless otherwise defined herein or the context otherwise requires, shall have the definitions set forth in Section 1.01 of the Existing Credit Agreement, and such definitions are hereby incorporated herein by reference, mutatis mutandis , and the Existing Credit Agreement will be deemed to be and to continue to be (for purposes hereof) in effect for the benefit of CIBC whether or not the Existing Credit Agreement remains outstanding or in effect, except as expressly agreed otherwise by CIBC. Without limitation of the foregoing, all definitions and covenants therein that are incorporated herein, shall be incorporated as of the date hereof and for purposes of this Agreement shall not be subject to any subsequent modification, supplement, amendment or waiver by the lenders under or other parties to the Existing Credit Agreement, unless CIBC agrees in writing to such modification, supplement, amendment or waiver in its capacity as a lender thereunder, or, if CIBC shall no longer be a lender thereunder, or the Existing Credit Agreement shall no longer remain outstanding, CIBC agrees in writing that any modification, supplement, amendment or waiver thereto shall apply to such provisions as incorporated herein.

(b) In addition, the parties hereto agree that, for the purposes of Article VII, references in the Existing Credit Agreement to (i) "the Borrower" shall be references to the Company, (ii) "this Agreement" or "the Loan Document(s)" shall be references to this Agreement, (iii) "the Lenders" or the "Administrative Agent" shall be references to CIBC, (iv) references to the "Issuing Lender" shall be references to CIBC, and (v) a "Default" or "Event of Default" shall be references to a Default or Event of Default under this Agreement.

(c) Unless the context otherwise requires, whenever any statement is qualified by "to the best knowledge of" or "known to" (or a similar phrase) any Person that is not a natural person, it is intended to indicate that the senior management of such Person has conducted a commercially reasonable inquiry and investigation prior to making such statement and no member of the senior management of such Person (including managers, in the case of limited liability companies, and general partners, in the case of partnerships) has current actual knowledge of the inaccuracy of such statement.

ARTICLE III

LETTER OF CREDIT FACILITY

Section 3.1 Method of Issuance of Letters of Credit. At any time on or after the Closing Date until the Availability Termination Date, the Company may request CIBC issue one or more Letters of Credit hereunder. The Company shall give CIBC a Letter of Credit Request, requesting the issuance or extension of a Letter of Credit, prior to 1:00 P.M. New York time on the proposed date of issuance or extension of any Letter of Credit (which shall be a Business Day) (or such shorter period as may be agreed by CIBC in any particular instance), specifying the date such Letter of Credit is to be issued or extended and describing the terms of such Letter of Credit and the nature of the transactions to be supported thereby. The extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit, and no Letter of Credit shall contain a provision pursuant to which it is deemed to be extended or shall automatically extend. Accordingly, CIBC shall timely give such notice of termination unless it has theretofore timely received a Letter of Credit Request and the other conditions to issuance of a Letter of Credit have theretofore been met with respect to such extension.

Section 3.2 Conditions to Issuance of Letters of Credit. The issuance by CIBC of each Letter of Credit shall, in addition to the conditions precedent set forth in Article V, be subject to the conditions precedent that (i) such Letter of Credit shall be satisfactory in form and substance to CIBC, (ii) the Company shall have executed and delivered such other instruments and agreements relating to such Letter of Credit as CIBC shall have reasonably requested, (iii) the term of such Letter of Credit does not extend beyond 12 months after the date of issuance (after giving effect to any and all auto-renewal or extension provisions within such Letter of Credit), and does not extend beyond the Termination Date; and (iv) CIBC shall have confirmed on the date of (and after giving effect to) such issuance that the Aggregate Stated Amount will not exceed Maximum Stated Amount. Notwithstanding any other provision of this Section 3.2, CIBC shall not be under any obligation to issue any Letter of Credit if: any order, judgment or decree of any governmental authority shall by its terms purport to enjoin or restrain CIBC from issuing such Letter of Credit, or any requirement of law applicable to CIBC or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over CIBC shall prohibit, or request that CIBC refrain from, the issuance of letters of credit generally or such Letter of Credit in particular, or shall impose upon CIBC with respect to such Letter of Credit any restriction, reserve or capital requirement (for which CIBC is not otherwise compensated hereunder) not in effect on the date hereof, or shall impose upon CIBC any unreimbursed loss, cost or expense which was not applicable on the date hereof and which CIBC in good faith deems material to it.

Section 3.3 Drawings under Letters of Credit. Upon receipt from the beneficiary of any Letter of Credit of any notice of a Drawing under any Letter of Credit, CIBC shall determine in accordance with the terms of such Letter of Credit whether such Drawing should be honored. If CIBC determines that any such Drawing shall be honored, CIBC shall make available to such beneficiary in accordance with the terms of such Letter of Credit the amount of the Drawing and shall notify the Company of the amount to be paid as a result of such Drawing and the payment date.

Section 3.4 ISP98. The rules of the "International Standby Practices 1998" as published by the International Chamber of Commerce most recently at the time of issuance of any Letter of Credit shall apply to such Letter of Credit unless otherwise expressly provided in such Letter of Credit.

Section 3.5 Proof of Credit Obligations. This Agreement, the executed Letter of Credit Requests, executed Letters of Credit issued pursuant to such Letter of Credit Requests, and executed Drawings presented under such Letters of Credit shall be presumptive evidence of the Company's Credit Obligations.

ARTICLE IV

REIMBURSEMENT AND PAYMENT OBLIGATIONS

Section 4.1 Reimbursement Obligations. The Company shall be irrevocably and unconditionally obligated forthwith to reimburse CIBC for any amounts paid by CIBC upon any Drawing under any Letter of Credit, together with any and all reasonable charges and expenses which CIBC may pay or incur relative to such Drawing and interest on the amount drawn at the Applicable Rate for each day from and including the date such amount is drawn to but excluding the date such reimbursement payment is due and payable. Such reimbursement payment shall be due and payable (i) at or before 12:00 Noon New York time on the date CIBC notifies the Company of such Drawing, if such notice is given at or before 10:00 A.M. New York time on such date, or (ii) at or before 10:00 A.M. New York time on the next succeeding Business Day, if such notice is given after 10:00 A.M. New York time on such date; provided , that no payment otherwise required by this sentence to be made by the Company at or before 12:00 Noon New York time on any day shall be overdue hereunder if arrangements for such payment satisfactory to CIBC, in its reasonable discretion, shall have been made by the Company at or before 12:00 Noon. New York time on such day and such payment is actually made at or before 3:00 P.M. New York time on such day. In addition, the Company agrees to pay to CIBC interest, which shall accrue and be payable daily, on any and all amounts not paid by the Company to CIBC when due under this Section 4.1 , for each day from and including the date when such amount becomes due to but excluding the date such amount is paid in full, whether before or after judgment, at the Applicable Rate. Each payment to be made by the Company pursuant to this Section 4.1 shall be made to CIBC in immediately available funds at its address referred to in Section 9.1 .

Section 4.2 Obligations in Respect of Letters of Credit Unconditional. The obligations of the Company under Section 4.1 above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

(a) any lack of validity or enforceability of this Agreement or any Letter of Credit or any document related hereto or thereto;

(b) any amendment or waiver of or any consent to departure from all or any of the provisions of this Agreement or any Letter of Credit or any document related hereto or thereto;

(c) the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);

(d) the existence of any claim, set-off, defense or other rights that the Company may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), CIBC or any other Person, whether in connection with this Agreement or any Letter of Credit or any document related hereto or thereto or any unrelated transaction;

(e) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;

(f) payment under a Letter of Credit against presentation to an Issuing Lender of a draft or certificate that does not comply with the terms of such Letter of Credit; provided, that CIBC's determination that documents presented under such Letter of Credit comply with the terms thereof shall not have constituted gross negligence or willful misconduct of CIBC; or

(g) any other act or omission to act or delay of any kind by CIBC or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (g), constitute a legal or equitable discharge of the Company's obligations hereunder.

Nothing in this Section 4.2 is intended to limit the right of the Company to make a claim against CIBC for damages as contemplated by the proviso to the first sentence of Section 4.3 .

Section 4.3 Indemnification in Respect of Letters of Credit. The Company hereby indemnifies and holds harmless CIBC from and against any and all claims, damages, losses, liabilities, costs or expenses which CIBC may incur by reason of or in connection with the execution and delivery or transfer of or payment or failure to pay under any Letter of Credit, including, without limitation, any of the circumstances enumerated in Section 4.2 , as well as (i) any error, omission, interruption or delay in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, (ii) any error in interpretation of technical terms, (iii) any loss or delay in the transmission of any document required in order to make a Drawing under a Letter of Credit, (iv) any consequences arising from causes beyond the control of such indemnitee, including without limitation, any government acts, or (v) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit; provided , that the Company shall not be required to indemnify CIBC for any claims, damages, losses, liabilities, costs or expenses, and the Company shall have a claim against CIBC for direct (but not consequential) damages suffered by it, to the extent found by a court of competent jurisdiction in a final, non-appealable judgment or order to have been caused by (a) the willful misconduct or gross negligence of CIBC in determining whether a request presented under any Letter of Credit issued by it complied with the terms of such Letter of Credit or (b) CIBC's failure to pay under any Letter of Credit issued by it after the presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit. Nothing in this Section 4.3 is intended to limit the obligations of the Company under any other provision of this Agreement.

Section 4.4 Interest Calculations . Interest shall accrue on the outstanding Unreimbursed Amount, for each day from the date of the related Drawing until it is paid in full, at a rate per annum equal to the Applicable Rate. CIBC shall determine the Applicable Rate hereunder, and shall give prompt notice to the Company of each change in the Applicable Rate as so determined, and its determination thereof shall be conclusive in the absence of manifest error. Interest shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed.

Section 4.5 Fees . The Company shall pay to CIBC a fee, quarterly in arrears on the last day of each March, June, September and December falling after the Closing Date (or, if any such day is not a Business Day, the next succeeding Business Day), and on the Termination Date, at a rate equal to 1.25% per annum on the average Aggregate Stated Amount of all Letters of Credit outstanding on each day during such quarter, and for the number of days in such period. For the avoidance of doubt, the first quarterly payment shall be due on September 30, 2012, in respect of the period beginning on the Closing Date and ending on such date, and the payment due on the Termination

Date shall be in respect of the period from the preceding quarter-end through the Termination Date. In addition, the Company shall pay to CIBC, upon each issuance of, payment under, and/or amendment of, a Letter of Credit, such amount as shall at the time of such issuance, payment or amendment be the administrative charges and expenses which CIBC is customarily charging for issuances of, payments under, or amendments to letters of credit issued by it.

Section 4.6 General Provisions as to Payments.

(a) Payments by the Company. The Company shall make each payment of principal of and interest on the Credit Obligations hereunder on the date when due, without set-off, counterclaim or other deduction, in immediately available funds in New York, New York, to CIBC at its address referred to in Section 9.1 . Whenever any payment shall be due on a day which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Increased Costs. If after the date hereof, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by CIBC with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System), special deposit, insurance assessment or similar requirement against Letters of Credit issued by, assets of, deposits with or for the account of or credit extended by, CIBC or shall impose on CIBC or on the United States market for certificates of deposit, or on obligations hereunder in respect of Letters of Credit, and the result of any of the foregoing is to increase the cost to CIBC of issuing any Letter of Credit, or to reduce the amount of any sum received or receivable by CIBC under this Agreement with respect thereto, then, within fifteen (15) days after demand by CIBC, the Company shall pay to CIBC such additional amount or amounts, as determined by CIBC in good faith, as will compensate CIBC for such increased cost or reduction, solely to the extent that any such additional amounts were incurred by CIBC within ninety (90) days of such demand.

(c) Capital Adequacy. If CIBC shall have determined that, after the date hereof, the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of CIBC (or any Person controlling CIBC) as a consequence of CIBC's obligations hereunder to a level below that which CIBC (or any Person controlling CIBC) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy), then from time to time, within fifteen (15) days after demand by CIBC, the Company shall pay to CIBC such additional amount or amounts as will compensate CIBC (or any Person controlling CIBC) for such reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(d) Notices. CIBC will promptly notify the Company of any event of which it has knowledge, occurring after the date hereof, that will entitle CIBC to compensation pursuant to this Section, and will use reasonable efforts to avoid the need for or to reduce the amount of such compensation as are not, in the judgment of CIBC, otherwise disadvantageous to CIBC. A certificate of CIBC claiming compensation under this Section and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, CIBC may use any reasonable averaging and attribution methods.

Section 4.7 Taxes .

(a) Payments Net of Certain Taxes. Any and all payments by the Company to or for the account of CIBC hereunder shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges and withholdings and all liabilities with respect thereto, excluding: (i) taxes imposed on or measured by the net income (including branch profits or similar taxes) of, and gross receipts, franchise or similar taxes imposed on, CIBC by the jurisdiction (or subdivision thereof) under the laws of which CIBC is organized or in which its principal executive office is located or, in which its Applicable Lending Office is located, (ii) any United States withholding tax imposed on such payments, but only to the extent that CIBC is subject to United States withholding tax at the time CIBC first becomes a party to this Agreement or changes its Applicable Lending Office, (iii) any backup withholding tax imposed by the United States (or any state or locality thereof) on CIBC if it is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code, and (iv) any taxes imposed by FATCA (all such nonexcluded taxes, duties, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as " Taxes "). If the Company shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to CIBC, (i) the sum payable shall be increased as necessary so that after making all such required deductions (including deductions applicable to additional sums payable under this Section 4.7(a)) CIBC receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Company shall make such deductions, (iii) the Company shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Company shall furnish to CIBC the original or a certified copy of a receipt evidencing payment thereof.

(b) Other Taxes. In addition, the Company agrees to pay any and all present or future stamp or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement or from the execution, delivery, registration or enforcement of, or otherwise with respect to, this Agreement (collectively, " Other Taxes ").

(c) Indemnification. The Company agrees to indemnify CIBC for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 4.7(c)), whether or not correctly or legally asserted, paid by CIBC and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto as certified in good faith to the Company by CIBC seeking indemnification pursuant to this Section 4.7(c) . This indemnification shall be paid within 15 days after CIBC makes demand therefor.

(d) Refunds or Credits. If CIBC determines in its sole discretion it has received a refund from a taxation authority for any Taxes or Other Taxes for which it has been indemnified by the Company or with respect to which the Company has paid additional amounts pursuant to this Section 4.7 , it shall within fifteen (15) days from the date of such receipt pay over the amount of such refund to the Company (but only to the extent of indemnity payments made or additional amounts paid by the Company under this Section 4.7 with respect to the Taxes or Other Taxes giving rise to such refund), net of all reasonable out-of-pocket expenses of CIBC and without interest (other than interest paid by the relevant taxation authority with respect to such refund); provided , however, that the Company agrees to repay, upon the request of CIBC, the amount paid over to the Company (plus penalties, interest or other charges) to CIBC in the event CIBC or Agent is required to repay such refund to such taxation authority.

(e) Tax Forms and Certificates. On the date hereof, and from time to time thereafter if reasonably requested by the Company or CIBC, and at any time it changes its Applicable Lending Office: (i) if CIBC is a “United States person” within the meaning of Section 7701 (a)(30) of the Internal Revenue Code, it shall deliver to the Company two (2) properly completed and duly executed copies of Internal Revenue Service Form W-9, or any successor form prescribed by the Internal Revenue Service, or such other documentation or information prescribed by applicable law or reasonably requested by the Company, certifying that CIBC is a United States person and is entitled to an exemption from United States backup withholding tax or information reporting requirements; and (ii) if CIBC is not a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code, it shall deliver to the Company: (A) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, certifying that CIBC is entitled to the benefits under an income tax treaty to which the United States is a party which exempts CIBC from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of CIBC; (B) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 ECI, or any successor form prescribed by the Internal Revenue Service, certifying that the income receivable pursuant to this Agreement is effectively connected with the conduct of a trade or business in the United States; or (C) two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 BEN, or any successor form prescribed by the Internal Revenue Service, together with a certificate to the effect that (x) CIBC is not (1) a “bank” within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (2) a “10-percent shareholder” of the Company within the meaning of Section 871(h)(3)(B) of the Internal Revenue Code, or (3) a “controlled foreign corporation” that is described in Section 881(c)(3)(C) of the Internal Revenue Code and is related to the Company within the meaning of Section 864(d)(4) of the Internal Revenue Code and (y) the interest payments in question are not effectively connected with a U.S. trade or business conducted by CIBC or are effectively connected but are not includible in CIBC’s gross income for United States federal income tax purposes under an income tax treaty to which the United States is a party; or (D) to the extent CIBC is not the beneficial owner, two (2) properly completed and duly executed copies of Internal Revenue Service Form W-8 IMY, or any successor form prescribed by the Internal Revenue Service, accompanied by an Internal Revenue Service Form W-8 ECI, W-8 BEN, W-9, and/or other certification documents from each beneficial owner, as applicable. If a payment made to CIBC hereunder would be subject to U.S. Federal withholding tax imposed by FATCA if CIBC fails to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), CIBC shall deliver to the Company (A) a certification that CIBC has complied with such applicable reporting requirements, and (B) other documentation required to be provided to a withholding agent by FATCA or otherwise reasonably requested by the Company sufficient for the Company to comply with their obligations under FATCA and to determine that CIBC has complied with such applicable reporting requirements. In addition, CIBC agrees that from time to time after the date hereof, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will upon the written request of the Company, deliver to the Company two new accurate and complete signed originals of Internal Revenue Service Form W-9, W-8 BEN, W-8 ECI or W-8 IMY or FATCA-related documentation described above, or successor forms, as the case may be, and, to the extent legally entitled to do so, such other forms as may be required in order to confirm or establish the entitlement of CIBC to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement, or it shall immediately notify the Company of its inability to deliver any such Form or certificate.

(f) Exclusions. The Company shall not be required to indemnify CIBC, or to pay any additional amount to CIBC, pursuant to Section 4.7(a) , (b) or (c) in respect of Taxes or Other Taxes to the extent that the obligation to indemnify or pay such additional amounts would not have arisen but for the failure of CIBC to comply with the provisions of subsection (e) above.

(g) Mitigation. If the Company is required to pay additional amounts to or for the account of CIBC pursuant to this Section 4.7 , then CIBC will use reasonable efforts (which shall include efforts to rebook the Credit Obligations held by CIBC to a new Applicable Lending Office, or through another branch or affiliate of CIBC) to change the jurisdiction of its Applicable Lending Office if, in the good faith judgment of CIBC, such efforts (i) will eliminate or, if it is not possible to eliminate, reduce to the greatest extent possible any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous, in the sole determination of CIBC, to CIBC. If CIBC is claiming any indemnity payment or additional amounts payable pursuant to this Section, it shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document reasonably requested in writing by the Company or to change the jurisdiction of its Applicable Lending Office if the making of such a filing or change would avoid the need for or reduce the amount of any such indemnity payment or additional amounts that may thereafter accrue and would not, in the sole determination of CIBC, be otherwise disadvantageous to CIBC.

(h) Confidentiality. Nothing contained in this Section shall require CIBC to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

ARTICLE V

CONDITIONS

Section 5.1 Conditions to Closing. The initial availability of the facility contemplated by this Agreement is subject to the satisfaction of the following conditions:

(a) This Agreement. On or prior to August 1, 2012, CIBC shall have received a counterpart hereof signed by the Company.

(b) Officers' Certificates. CIBC shall have received a certificate signed on behalf of the Company by the Chairman of the Board, the President, any Vice President, the Treasurer or the Assistant Treasurer of the Company stating that (A) on the Closing Date and after giving effect to the Letters of Credit being made or issued on the Closing Date, no Default shall have occurred and be continuing and (B) the representations and warranties of the Company contained herein are true and correct on and as of the Closing 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.

(c) Proceedings. On the Closing Date, CIBC 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 Company and (ii) a certificate of the Secretary or an Assistant Secretary of the Company dated the Closing Date and certifying (A) that attached thereto is a true, correct and complete copy of (x) the Company's certificate of formation certified by the Secretary of State of the State of Delaware and (y) the limited liability company agreement of the Company, (B) as to the absence of dissolution or liquidation proceedings by or against the Company, (C) that attached thereto is a true, correct and complete copy of resolutions adopted by the managers of the Company authorizing the execution, delivery and performance of this Agreement and each other document delivered in connection herewith or therewith 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 Company executing this Agreement or any other document delivered in connection herewith or therewith.

(d) Opinions of Counsel. On the Closing Date, CIBC shall have received from counsel to the Company, opinions addressed to CIBC, dated the Closing Date, as to such customary matters as CIBC shall reasonably require.

(e) Consents. All necessary governmental (domestic or foreign), regulatory and third party approvals, if any, in connection with the transactions contemplated by this Agreement and 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 CIBC, materially adverse conditions upon the consummation of such transactions.

(f) Payment of Fees. All costs, fees and expenses due to CIBC on or before the Closing Date shall have been paid.

(g) Counsel Fees. CIBC shall have received full payment from the Company of the fees and expenses of Mayer Brown LLP which are billed through the Closing Date.

Section 5.2 Conditions to Issuance. The obligation of CIBC to issue (or renew or extend the term of) any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) receipt by CIBC of a Letter of Credit Request as required hereunder;

(b) after giving effect to the proposed issuance of such Letter of Credit, the Aggregate Stated Amount will not exceed the Maximum Stated Amount;

(c) the fact that, immediately before and after giving effect to such issuance, renewal or extension, no Default shall have occurred and be continuing; and

(d) the fact that the representations and warranties of the Company contained in this Agreement shall be true and correct on and as of the date of such issuance, renewal or extension, 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 6.4(c) , Section 6.6 , Section 6.15 and Section 6.16 , which shall be deemed only to relate to the matters referred to therein on and as of the Closing Date.

Each issuance, renewal or extension of a Letter of Credit under this Agreement shall be deemed to be a representation and warranty by the Company on the date of such event as to the facts specified in clauses (b) and (c) of this Section.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES

The Company represents and warrants that:

Section 6.1 Status. The Company is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware and has the limited liability company authority to make and perform this Agreement.

Section 6.2 Authority; No Conflict. The execution, delivery and performance by the Company of this Agreement and each other Letter of Credit Request have been duly authorized by all necessary limited liability company action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its limited liability company agreement, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which the Company is a party.

Section 6.3 Legality; Etc. This Agreement and each Letter of Credit Request constitute the legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their terms except to the extent limited by (a) bankruptcy, insolvency, fraudulent conveyance or reorganization laws or by other similar laws relating to or affecting the enforceability of creditors' rights generally and by general equitable principles which may limit the right to obtain equitable remedies regardless of whether enforcement is considered in a proceeding of law or equity or (b) any applicable public policy on enforceability of provisions relating to contribution and indemnification.

Section 6.4 Financial Condition.

(a) Audited Financial Statements. The consolidated balance sheet of the Company and its Consolidated Subsidiaries as of December 31, 2011 and the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by Ernst & Young, LLP, copies of which have been delivered to CIBC, fairly present, in conformity with GAAP, the consolidated financial position of the Company and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) Interim Financial Statements. The unaudited consolidated balance sheet of the Company and its Consolidated Subsidiaries as of March 31, 2012 and the related unaudited consolidated statements of income and cash flows for the three 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 Company and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such three-month period (subject to normal year-end audit adjustments).

(c) Material Adverse Change. Since December 31, 2011, there has been no change in the business, assets, financial condition or operations of the Company and its Consolidated Subsidiaries, considered as a whole, that would materially and adversely affect the Company's ability to perform any of its obligations under this Agreement.

Section 6.5 Rights to Properties. The Company and its Restricted Subsidiaries have good and valid fee, leasehold, easement or other right, title or interest in or to all the properties necessary to the conduct of their business as conducted on the Closing Date and as then proposed to be conducted, except to the extent the failure to have such rights or interests would not have a Material Adverse Effect.

Section 6.6 Litigation. Except as disclosed in or contemplated by the Company's Form 10-K Report to the SEC for the year ended December 31, 2011 or in any subsequent Form 10-K, 10-Q or 8-K Report, no litigation, arbitration or administrative proceeding against the Company is pending or, to the Company's knowledge, threatened, which would reasonably be expected to materially and adversely affect the ability of the Company to perform any of its obligations under this Agreement. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of the Company, threatened which questions the validity of this Agreement.

Section 6.7 No Violation. No part of the proceeds of the borrowings by hereunder will be used, directly or indirectly by the Company for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or for any other purpose which violates, or which conflicts with, the provisions of Regulations U or X of said Board of Governors. The Company is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any such "margin stock".

Section 6.8 ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Material Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Material Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Material Plan, (ii) failed to make any contribution or payment to any Material Plan, or made any amendment to any Material Plan, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any material liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 6.9 Governmental Approvals. No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by the Company of this Agreement, except such authorizations, consents and approvals as shall have been obtained prior to the Closing Date and shall be in full force and effect.

Section 6.10 Investment Company Act. The Company is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 6.11 Restricted Subsidiaries, Etc. Set forth in Schedule 6.11 hereto is a complete and correct list as of the Closing Date of the Restricted Subsidiaries of the Company, together with, for each such Subsidiary, the jurisdiction of organization of such Subsidiary. Except as disclosed in Schedule 6.11 hereto, as of the Closing Date, each such Subsidiary (i) was a Wholly Owned Subsidiary of the Company and (ii) was duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and had all corporate or other organizational powers to carry on its businesses as then conducted.

Section 6.12 Tax Returns and Payments. The Company and each of its Restricted Subsidiaries has filed or caused to be filed all federal, state, local and foreign income tax returns required to have been filed by it and has paid or caused to be paid all income taxes shown to be due on such returns except income taxes that are being contested in good faith by appropriate proceedings and for which the Company or its Restricted Subsidiaries, as the case may be, shall have set aside on its books appropriate reserves with respect thereto in accordance with GAAP or that would not reasonably be expected to have a Material Adverse Effect.

Section 6.13 Compliance with Laws. To the knowledge of the Company or any of its Restricted Subsidiaries, the Company and each of its Restricted Subsidiaries is in compliance with all applicable laws, regulations and orders of any Governmental

Authority, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, compliance with all applicable ERISA and Environmental Laws and the requirements of any permits issued under such Environmental Laws), except to the extent (a) such compliance is being contested in good faith by appropriate proceedings or (b) non-compliance would not reasonably be expected to materially and adversely affect its ability to perform any of its obligations under this Agreement.

Section 6.14 No Default. No Default has occurred and is continuing.

Section 6.15 Environmental Matters.

(a) Except (i) as disclosed in or contemplated by the Company's Form 10-K Report to the SEC for the year ended December 31, 2011 or in any subsequent Form 10-K, 10-Q or 8-K Report, or (ii) to the extent that the liabilities of the Company and its Subsidiaries, taken as a whole, that relate to or could reasonably be expected to result from the matters referred to in clauses (i) through (iii) of this Section 6.15(a) , inclusive, would not reasonably be expected to result in a Material Adverse Effect:

(i) no notice, notification, citation, summons, complaint or order has been received by the Company or any of its Subsidiaries, no penalty has been assessed nor is any investigation or review pending or, to the Company's or any of its Subsidiaries' knowledge, threatened by any governmental or other entity with respect to any (A) alleged violation by or liability of the Company or any of its Subsidiaries of or under any Environmental Law, (B) alleged failure by the Company or any of its Subsidiaries to have any environmental permit, certificate, license, approval, registration or authorization required in connection with the conduct of its business or (C) generation, storage, treatment, disposal, transportation or release of Hazardous Substances;

(ii) to the Company's or any of its Subsidiaries' knowledge, no Hazardous Substance has been released (and no written notification of such release has been filed) (whether or not in a reportable or threshold planning quantity) at, on or under any property now or previously owned, leased or operated by the Company or any of its Subsidiaries; and

(iii) no property now or previously owned, leased or operated by the Company or any of its Subsidiaries or, to the Company's or any of its Subsidiaries' knowledge, any property to which the Company or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Company's or any of its Subsidiaries' knowledge, proposed for listing, on the National Priorities List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (" CERCLA "), on CERCLIS (as defined in CERCLA) or on any similar federal, state or foreign list of sites requiring investigation or clean-up.

(b) Except as disclosed in or contemplated by the Company's Form 10-K Report to the SEC for the year ended December 31, 2011 or in any subsequent Form 10-K, 10-Q or 8-K Report, to the Company's or any of its Subsidiaries' knowledge, there are no Environmental Liabilities that have resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) For purposes of this Section 6.15 , the terms "the Company" and "Subsidiary" shall include any business or business entity (including a corporation) which is a predecessor, in whole or in part, of the Company or any of its Subsidiaries from the time such business or business entity became a Subsidiary of PPL Corporation, a Pennsylvania corporation.

Section 6.16 Guarantees. As of the Closing Date, except as set forth in Schedule 6.16 hereto, the Company has no Guarantees of any Debt of any Foreign Subsidiary of the Company other than such Debt not in excess of $25,000,000 in the aggregate.

Section 6.17 OFAC. None of the Company, any Subsidiary of the Company or any Affiliate of the Company: (i) is a Sanctioned Person, (ii) has more than 10% of its assets in Sanctioned Entities, or (iii) derives more than 10% of its operating income from investments in, or transactions with Sanctioned Persons or Sanctioned Entities.

ARTICLE VII

COVENANTS

The Company agrees with CIBC that, until all Letters of Credit issued under this Agreement shall have terminated, and all Credit Obligations shall have been indefeasibly paid in full, the Company will perform or cause to be performed each covenant of the "Borrower" contained in Article VI of the Existing Credit Agreement, with each definition and related term, as in effect on the Closing Date (and thereafter as in effect) being incorporated in this Agreement by this reference as though specifically set forth herein, subject in all cases to the terms of Section 2.3 ; provided that if CIBC shall cease to be a Lender under the Existing Credit Agreement, the Company agrees to amend this Agreement by inserting substantially all of the affirmative and negative covenants of the Company under the Existing Credit Agreement into this Agreement directly.

ARTICLE VIII

DEFAULTS

Section 8.1 Events of Default. If one or more of the following events (each an " Event of Default ") shall have occurred and be continuing:

(a) the Company shall fail to pay when due any principal on any Credit Obligations; or

(b) the Company shall fail to pay when due any interest on the Credit Obligations, any fee or any other amount payable hereunder for five (5) days following the date such payment becomes due hereunder; or

(c) the Company shall fail to observe or perform any covenant or agreement (A) contained in clause (ii) of Section 6.05, or Sections 6.06, 6.08, 6.09, 6.11 or 6.12 of the Existing Agreement (as incorporated into this Agreement pursuant to Article VII), or (B) contained in Section 6.01(d)(i) of the Existing Agreement (as incorporated into this Agreement pursuant to Article VII) for 30 days after any such failure, or (C) contained in Section 6.01(d)(ii) of the Existing Agreement (as incorporated into this Agreement pursuant to Article VII) for ten (10) days after any such failure; or

(d) the Company shall fail to observe or perform any covenant or agreement contained in this Agreement, including covenants and agreements incorporated herein pursuant to Article VII (other than those covered by clauses (a), (b) or (c) above) for thirty (30) days after written notice thereof has been given to the Company by CIBC; or

(e) any representation, warranty or certification made by the Company in this Agreement or in any certificate, financial statement or other document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made or deemed made; or

(f) the Company or any Restricted Subsidiary shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any grace period provided with respect thereto, or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Material Debt beyond any grace period provided with respect thereto if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Debt or a trustee on its or their behalf to cause, such Debt to become due prior to its stated maturity; or

(g) the Company or any Restricted Subsidiary of the Company shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay, or shall admit in writing its inability to pay, its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(h) an involuntary case or other proceeding shall be commenced against the Company or any Restricted Subsidiary seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Company or any Restricted Subsidiary under the Bankruptcy Code; or

(i) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of $50,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could reasonably be expected to cause one or more members of the ERISA Group to incur a current payment obligation in excess of $50,000,000; or

(j) the Company or any of its Restricted Subsidiaries shall fail within sixty (60) days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of $20,000,000, entered against the Company or any such Restricted Subsidiary that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(k) a Change of Control shall have occurred;

then, and in every such event, while such event is continuing, CIBC may (A) by notice to the Company declare the Availability Termination Date to have occurred, and (B) by notice to the Company declare the Credit Obligations (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) to be, and the Credit Obligations shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kin), all of which are hereby waived by the Company and require the Company to, and the Company shall, Cash Collateralize (in an amount not less than 100% thereof) all Credit Obligations then outstanding; provided, that, in the case of any Default or any Event of Default specified in clause 8.1(g) or 8.1(h) above with respect to the Company, without any notice to the Company or any other act by CIBC, the Availability Termination Date shall thereupon occur and the Credit Obligations (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Company, and the Company shall Cash Collateralize (in an amount not less than 100% thereof) all Credit Obligations then outstanding.

ARTICLE IX

MISCELLANEOUS

Section 9.1 Notices. Except as otherwise expressly provided herein, all notices and other communications hereunder shall be in writing (for purposes hereof, the term “writing” shall include information in electronic format such as electronic mail and internet web pages) or by telephone subsequently confirmed in writing; provided that the foregoing shall not apply to notices to CIBC pursuant to Article III if CIBC has notified the Company that it is incapable of receiving notices under such Article in electronic format. Any notice shall have been duly given and shall be effective if delivered by hand delivery or sent via electronic mail, telecopy, recognized overnight courier service or certified or registered mail, return receipt requested, or posting on an internet web page, and shall be presumed to be received by a party hereto (i) on the date of delivery if delivered by hand or sent by electronic mail, posting on an internet web page, or telecopy, (ii) on the Business Day following the day on which the same has been delivered prepaid (or on an invoice basis) to a reputable national overnight air courier service or (iii) on the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case to the respective parties at the address or telecopy numbers set forth below, and, in the case of the Lenders, set forth on signature pages hereto, or at such other address as such party may specify by written notice to the other parties hereto:

if to the Company:

PPL Energy Supply, LLC
Two North Ninth Street (GENTW14)
Allentown, Pennsylvania 18101-1179
Attention: Russell R. Clelland
Telephone: 610-774-5151
Facsimile: 610-774-5235

with a copy to:

PPL Energy Supply, LLC
Two North Ninth Street (GENTW4)
Allentown, Pennsylvania 18101-1179
Attention: Frederick C. Paine, Esq.
Telephone: 610-774-7445
Facsimile: 610-774-6726

if to CIBC:

For Letter of Credit Requests:

Canadian Imperial Bank of Commerce, New York Agency
425 Lexington Avenue, 5 th Avenue
New York, New York, 10017 Attn: Blair Kissack/Fred Page/Ryan Moonilal
Telephone: (416) 780-5543 and (416) 542-4344
Facsimile: (905) 948-1934

For all other notices:

Canadian Imperial Bank of Commerce, New York Agency
425 Lexington Avenue
New York, New York, 10017
Attn: General Counsel
Telephone: (212) 667-8316
Facsimile: (212) 667-8366

Section 9.2 No Waivers; Non-Exclusive Remedies. No failure by CIBC to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.3 Expenses; Indemnification .

(a) Expenses. The Company shall pay (i) all out-of-pocket expenses of CIBC, including legal fees and disbursements of Mayer Brown LLP and any other local counsel retained by CIBC, in its reasonable discretion, in connection with the preparation, execution, delivery and administration of this Agreement, any waiver or consent thereunder or any amendment thereof or any Default or alleged Default thereunder and (ii) all reasonable out-of-pocket expenses incurred by CIBC, including (without duplication) the fees and disbursements of outside counsel, in connection with any restructuring, workout, collection, bankruptcy, insolvency and other enforcement proceedings in connection with the enforcement and protection of its rights; provided, that the Company shall not be liable for any legal fees or disbursements of any counsel for CIBC other than Mayer Brown LLP associated with the preparation, execution and delivery of this Agreement and the closing documents contemplated hereby.

(b) Indemnity in Respect of Agreement. The Company agrees to indemnify CIBC, its Affiliates and the respective directors, officers, trustees, agents, employees, trustees and advisors of the foregoing (each an " Indemnitee ") and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses or disbursements of any kind whatsoever (including, without limitation, the reasonable fees and disbursements of counsel and any civil penalties or fines assessed by OFAC), which may at any time (including, without limitation, at any time following the payment of the obligations of the Company hereunder) be imposed on, incurred by or asserted against such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) brought or threatened (by any third party, by the Company or any Subsidiary of the Company) in any way relating to or arising out of this Agreement or any documents contemplated hereby or referred to herein or any actual or proposed use of proceeds of Loans hereunder; provided, that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee's own gross negligence or willful misconduct as determined by a court of competent jurisdiction in a final, non-appealable judgment or order.

(c) Indemnity in Respect of Environmental Liabilities. The Company agrees to indemnify each Indemnitee and hold each Indemnitee harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs and expenses or disbursements of any kind whatsoever (including, without limitation, reasonable expenses of investigation by engineers, environmental consultants and similar technical personnel and reasonable fees and disbursements of counsel) which may at any time (including, without limitation, at any time following the payment of the obligations of the Company hereunder) be imposed on, incurred by or asserted against such Indemnitee in respect of or in connection with any actual or alleged presence or release of Hazardous Substances on or from any property now or previously owned or operated by the Company or any of its Subsidiaries or any predecessor of the Company or any of its Subsidiaries, or any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Company hereby waives all rights of contribution or any other rights of recovery with respect to liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and expenses and disbursements in respect of or in connection with Environmental Liabilities that it might have by statute or otherwise against any Indemnitee.

(d) Waiver of Damages. To the fullest extent permitted by applicable law, the Company shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in clause (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the transactions contemplated hereby.

Section 9.4 Amendments and Waivers. Any provision of this Agreement may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Company and CIBC.

Section 9.5 Successors and Assigns .

(a) Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Company may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of CIBC, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to this Agreement.

(b) Assignments to Federal Reserve Banks. CIBC may at any time assign all or any portion of its rights under this Agreement to a Federal Reserve Bank. No such assignment shall release CIBC from its obligations hereunder.

Section 9.6 Governing Law; Submission to Jurisdiction. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York. The Company hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Company irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such court and any claim that any such proceeding brought in any such court has been brought in an inconvenient forum.

Section 9.7 Counterparts; Integration; Effectiveness. This Agreement shall become effective on the Closing Date. This Agreement 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. On and after the Closing Date, this Agreement and all the documents referred to herein shall constitute the entire agreement and understanding among the parties hereto and supersede any and all prior agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

Section 9.8 Generally Accepted Accounting Principles. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Company's independent public accountants) with the audited consolidated financial statements of the Company and its Consolidated Subsidiaries most recently delivered to the Lenders; provided , that, if the Company notifies CIBC that the Company wishes to amend any covenant herein to eliminate the effect of any change in GAAP on the operation of such covenant (or if CIBC notifies the Company that its wishes to amend this Agreenent for such purpose), then the Company's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Company and CIBC.

Section 9.9 WAIVER OF JURY TRIAL. THE COMPANY HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.10 Confidentiality. CIBC agrees to hold all non-public information obtained pursuant to the requirements of this Agreement in accordance with its customary procedure for handling confidential information of this nature and in accordance with safe and sound banking practices; provided, that nothing herein shall prevent CIBC from disclosing such information (i) to any Person if reasonably incidental to the administration of the Credit Obligations, (ii) upon the order of any court or administrative agency, (iii) to the extent requested by, or required to be disclosed to, any rating agency or regulatory agency or similar authority (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (iv) which had been publicly disclosed other than as a result of a disclosure by CIBC prohibited by this Agreement, (v) in connection with any litigation to which CIBC or any of its Subsidiaries or Affiliates may be party, (vi) to the extent necessary in connection with the exercise of any remedy hereunder, (vii) to CIBC's Affiliates and their respective directors, officers, employees and agents including legal counsel and independent auditors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (viii) with the consent of the Company, (ix) to Gold Sheets and other similar bank trade publications, such information to consist solely of deal terms and other information customarily found in such publications and (x) subject to provisions substantially similar to those contained in this Section, to any securitization, swap or derivative transaction relating to the Credit Obligations hereunder. Notwithstanding the foregoing, CIBC or Mayer Brown LLP may circulate promotional materials and place advertisements in financial and other newspapers and periodicals or on a home page or similar place for dissemination of information on the Internet or worldwide web, in each case, after the closing of the transactions contemplated by this Agreement in the form of a "tombstone" or other release limited to describing the names of the Company or its Affiliates, or any of them, and the amount, type and closing date of such transactions, all at their sole expense

Section 9.11 USA PATRIOT Act Notice. CIBC hereby notifies the Company that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub.L. 107-56 (signed into law October 26, 2001)) (the " Patriot Act "), it is required to obtain, verify and record information that identifies the Company, which information includes the name and address of the Company and other information that will allow CIBC to identify the Company in accordance with the Patriot Act.

Section 9.12 No Fiduciary Duty. CIBC and its Affiliates (collectively, solely for purposes of this paragraph, the " CIBC Parties "), may have economic interests that conflict with those of the Company, its Affiliates and/or their respective stockholders (collectively, solely for purposes of this paragraph, the " Company Parties "). The Company agrees that nothing in this Agreement or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty (other than any implied duty of good faith) between any CIBC Party, on the one hand, and any Company Party, on the other. The CIBC Parties acknowledge and agree that (a) the transactions contemplated by this Agreement (including the exercise of rights and remedies hereunder and thereunder) are arm's-length commercial transactions between the CIBC Parties, on the one hand, and the Company, on the other and (b) in connection therewith and with the process leading thereto, (i) no CIBC Party has assumed an advisory or fiduciary responsibility in favor of any Company Party with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any CIBC Party has advised, is currently advising or will advise any Company Party on other matters) or any other obligation to any Company Party except the obligations expressly set forth in this Agreement and (ii) each CIBC Party is acting solely as principal and not as the agent or fiduciary of any Company Party. The Company acknowledges and agrees that the Company has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Company agrees that it will not claim that any CIBC Party has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to any Company Party, in connection with such transaction or the process leading thereto.

EXECUTED as of the day first written above.

PPL ENERGY SUPPLY, LLC

By:____________________________________
Name:
Title:

CANADIAN IMPERIAL BANK OF COMMERCE, NEW YORK AGENCY

By:____________________________________
Name:
Title:

Schedule 6.11 [1]

Restricted Subsidiaries

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
PPL Holtwood, LLC	Delaware
PPL EnergyPlus, LLC	Pennsylvania
PPL Investment Corporation	Delaware

[1] As of July 27, 2012

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, 2012	Years Ended December 31, 2011	2010	2009	2008	2007
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	**$ 1,169**	$ 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
	1,169	2,202	1,246	539	1,273	1,232
Total fixed charges as below	**520**	1,022	698	513	568	609
Less:						
Capitalized interest	**29**	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	**485**	945	635	431	468	492
Total earnings	**$ 1,654**	$ 3,147	$ 1,881	$ 970	$ 1,741	$ 1,724
Fixed charges, as defined:						
Interest charges (a)	**$ 497**	$ 955	$ 637	$ 446	$ 518	$ 565
Estimated interest component of operating rentals	**17**	44	39	42	22	21
Preferred security 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)	**$ 520**	$ 1,022	$ 698	$ 513	$ 568	$ 609
Ratio of earnings to fixed charges	**3.2**	3.1	2.7	1.9	3.1	2.8
Ratio of earnings to combined fixed charges and preferred stock dividends (c)	**3.2**	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)

	6 Months Ended June 30, 2012	Years Ended December 31, 2011	2010	2009	2008	2007
Earnings, as defined:						
Income (Loss) from Continuing Operations Before Income Taxes	**$ 514**	$ 1,212	$ 881	$ (13)	$ 671	$ 785
Adjustments to reflect earnings from equity method investments on a cash basis		1	7	1		2
	514	1,213	888	(12)	671	787
Total fixed charges as below	**118**	259	426	364	390	388
Less:						
Capitalized interest	**24**	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	**94**	209	246	218	176	117
Total earnings	**$ 608**	$ 1,422	$ 1,134	$ 206	$ 847	$ 904
Fixed charges, as defined:						
Interest charges (a)	**$ 105**	$ 223	$ 387	$ 321	$ 374	$ 374
Estimated interest component of operating rentals	**13**	36	38	42	15	14
Fixed charges of majority-owned share of 50% or less-owned persons			1	1	1	
Total fixed charges (b)	**$ 118**	$ 259	$ 426	$ 364	$ 390	$ 388
Ratio of earnings to fixed charges (c)	**5.2**	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)

	6 Months Ended June 30, 2012	Years Ended December 31, 2011	2010	2009	2008	2007
Earnings, as defined:						
Income Before Income Taxes	**$ 97**	$ 257	$ 192	$ 221	$ 278	$ 246
Total fixed charges as below	**52**	105	102	121	114	143
Total earnings	**$ 149**	$ 362	$ 294	$ 342	$ 392	$ 389
Fixed charges, as defined:						
Interest charges (a)	**$ 50**	$ 102	$ 101	$ 120	$ 113	$ 139
Estimated interest component of operating rentals	**2**	3	1	1	1	4
Total fixed charges (b)	**$ 52**	$ 105	$ 102	$ 121	$ 114	$ 143
Ratio of earnings to fixed charges	**2.9**	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	**52**	105	102	121	114	143
Total fixed charges and preferred stock dividends	**$ 58**	$ 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			
	6 Months Ended Jun. 30, 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	**$ 144**	$ 419	$ 70	$ 300	$ (1,235)	$ (1,536)	$ 332
Adjustment to reflect earnings from equity method investments on a cash basis	**6**	(1)		(4)	11		(5)
Loss on impairment of goodwill					1,493	1,806	
Mark to market impact of derivative instruments			2	(20)	(19)	34	
	150	418	72	276	250	304	327
Total fixed charges as below	**78**	153	25	158	186	199	170
Total earnings	**$ 228**	$ 571	$ 97	$ 434	$ 436	$ 503	$ 497
Fixed charges, as defined:							
Interest charges (a)	**$ 75**	$ 147	$ 24	$ 153	$ 176	$ 184	$ 155
Estimated interest component of operating rentals	**3**	6	1	5	5	5	4
Estimated discontinued operations interest component of rental expense					5	10	10
Preferred stock dividends							1
Total fixed charges	**$ 78**	$ 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			
	6 Months Ended Jun. 30, 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	**$ 80**	$ 195	$ 29	$ 167	$ 142	$ 131	$ 179
Mark to market impact of derivative instruments			1	(20)	(20)	35	
	80	195	30	147	122	166	179
Total fixed charges as below	**22**	46	8	40	46	60	53
Total earnings	**$ 102**	$ 241	$ 38	$ 187	$ 168	$ 226	$ 232
Fixed charges, as defined:							
Interest charges (a)	**$ 21**	$ 44	$ 8	$ 38	$ 44	$ 58	$ 50
Estimated interest component of operating rentals	**1**	2		2	2	2	2
Preferred stock dividends							1
Total fixed charges	**$ 22**	$ 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.

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES

(Millions of Dollars)

	Successor			Predecessor			
	6 Months Ended Jun. 30, 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	**$ 108**	$ 282	$ 55	$ 218	$ 200	$ 226	$ 244
Adjustment to reflect earnings from equity method investments on a cash basis	**6**	(1)		(4)	11		(5)
Mark to market impact of derivative instruments					1	(1)	
	114	281	55	214	212	225	239
Total fixed charges as below	**36**	73	11	71	79	77	59
Total earnings	**$ 150**	$ 354	$ 66	$ 285	$ 291	$ 302	$ 298
Fixed charges, as defined:							
Interest charges (a)	**$ 34**	$ 70	$ 10	$ 69	$ 76	$ 74	$ 57
Estimated interest component of operating rentals	**2**	3	1	2	3	3	2
Total fixed charges	**$ 36**	$ 73	$ 11	$ 71	$ 79	$ 77	$ 59
Ratio of earnings to fixed charges	**4.2**	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: August 8, 2012

/s/ William H. Spence
William H. Spence
Chairman, President and Chief Executive Officer
PPL Corporation

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 8, 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: August 8, 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: August 8, 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: August 8, 2012

/s/ Gregory N. Dudkin
Gregory N. Dudkin
President
PPL Electric Utilities Corporation

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 8, 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 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 8, 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: August 8, 2012

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
LG&E and KU Energy LLC

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 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: August 8, 2012

/s/ Kent W. Blake
Kent W. Blake
Chief Financial Officer
Louisville Gas and Electric Company

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 8, 2012

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman, President and Chief Executive Officer
Kentucky Utilities Company

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: August 8, 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 JUNE 30, 2012

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended June 30, 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: August 8, 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 JUNE 30, 2012

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended June 30, 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: August 8, 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 JUNE 30, 2012

In connection with the quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended June 30, 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: August 8, 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 JUNE 30, 2012

In connection with the quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended June 30, 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: August 8, 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 JUNE 30, 2012

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended June 30, 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: August 8, 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 JUNE 30, 2012

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended June 30, 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: August 8, 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 JUNE 30, 2012

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, 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: August 8, 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 JUNE 30, 2012

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, 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: August 8, 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 JUNE 30, 2012

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended June 30, 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: August 8, 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 JUNE 30, 2012

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended June 30, 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: August 8, 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 JUNE 30, 2012

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended June 30, 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: August 8, 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 JUNE 30, 2012

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended June 30, 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: August 8, 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.