

LOUISVILLE GAS & ELECTRIC CO /KY/

FORM 10-Q (Quarterly Report)

Filed 11/08/12 for the Period Ending 09/30/12

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Fiscal Year	12/31

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 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 _____

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
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 <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Energy Supply, LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
LG&E and KU Energy LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Louisville Gas and Electric Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Kentucky Utilities Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

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 <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Energy Supply, LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
LG&E and KU Energy LLC	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Louisville Gas and Electric Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Kentucky Utilities Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

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	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PPL Energy Supply, LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
PPL Electric Utilities Corporation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LG&E and KU Energy LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Louisville Gas and Electric Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Kentucky Utilities Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

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

PPL Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Energy Supply, LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
PPL Electric Utilities Corporation	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
LG&E and KU Energy LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Louisville Gas and Electric Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Kentucky Utilities Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

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, 581,705,916 shares outstanding at October 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 October 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 October 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 October 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 SEPTEMBER 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 Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company 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.

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its current and former subsidiaries

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

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

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

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 (formerly E.ON U.S. Services Inc.), 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. In August 2012, the court remanded CSAPR to the EPA for further action.

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.

E.W. Brown - a generating station in Kentucky with capacity of 1,631 MW.

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.

FTRs - 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.

kV - kilovolt

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.

RFC - Reliability First Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

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.

SERC - SERC Reliability Corporation, one of eight regional entities with delegated authority from NERC that work to safeguard the reliability of the bulk power systems throughout North America.

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

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

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

SMGT - Southern Montana Electric Generation & Transmission Cooperative, Inc., a Montana cooperative and purchaser of electricity under a long-term supply contract with PPL EnergyPlus 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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Operating Revenues				
Utility	\$ 1,693	\$ 1,675	\$ 5,012	\$ 4,695
Unregulated retail electric and gas	218	189	620	517
Wholesale energy marketing				
Realized	1,076	907	3,367	2,677
Unrealized economic activity (Note 14)	(716)	216	(322)	229
Net energy trading margins	(11)	(7)	7	14
Energy-related businesses	143	140	380	387
Total Operating Revenues	2,403	3,120	9,064	8,519
Operating Expenses				
Operation				
Fuel	570	603	1,405	1,492
Energy purchases				
Realized	583	362	2,253	1,467
Unrealized economic activity (Note 14)	(569)	176	(420)	49
Other operation and maintenance	650	735	2,095	2,041
Depreciation	278	252	813	697
Taxes, other than income	90	90	268	238
Energy-related businesses	137	135	363	368
Total Operating Expenses	1,739	2,353	6,777	6,352
Operating Income	664	767	2,287	2,167
Other Income (Expense) - net	(44)	37	(31)	(2)
Other-Than-Temporary Impairments		5	1	6
Interest Expense	248	240	714	678
Income from Continuing Operations Before Income Taxes	372	559	1,541	1,481
Income Taxes	17	110	364	429
Income from Continuing Operations After Income Taxes	355	449	1,177	1,052
Income (Loss) from Discontinued Operations (net of income taxes)			(6)	2
Net Income	355	449	1,171	1,054
Net Income Attributable to Noncontrolling Interests		5	4	13
Net Income Attributable to PPL Shareowners	\$ 355	\$ 444	\$ 1,167	\$ 1,041
Amounts Attributable to PPL Shareowners:				
Income from Continuing Operations After Income Taxes	\$ 355	\$ 444	\$ 1,173	\$ 1,039
Income (Loss) from Discontinued Operations (net of income taxes)			(6)	2
Net Income	\$ 355	\$ 444	\$ 1,167	\$ 1,041
Earnings Per Share of Common Stock:				
Income from Continuing Operations After Income Taxes Available to PPL Common Shareowners:				
Basic	\$ 0.61	\$ 0.76	\$ 2.01	\$ 1.91
Diluted	\$ 0.61	\$ 0.76	\$ 2.01	\$ 1.91
Net Income Available to PPL Common Shareowners:				
Basic	\$ 0.61	\$ 0.76	\$ 2.00	\$ 1.92
Diluted	\$ 0.61	\$ 0.76	\$ 2.00	\$ 1.91

Dividends Declared Per Share of Common Stock	\$ 0.36	\$ 0.35	\$ 1.08	\$ 1.05
Weighted-Average Shares of Common Stock Outstanding (in thousands)				
Basic	580,585	577,595	579,847	541,135
Diluted	582,636	578,054	580,930	541,480

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		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net income	\$ 355	\$ 449	\$ 1,171	\$ 1,054
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of \$1, (\$2), \$1, (\$1)	152	(4)	49	156
Available-for-sale securities, net of tax of (\$14), \$28, (\$34), \$15	13	(26)	28	(13)
Qualifying derivatives, net of tax of \$14, (\$19), (\$41), (\$30)	(41)	41	27	48
Equity investees' other comprehensive income (loss), net of tax of \$0, \$0, \$2, \$0			(3)	(1)
Defined benefit plans:				
Net actuarial gain (loss), net of tax of \$0, \$0, \$28, \$0		1	(85)	1
Reclassifications to net income - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of \$0, \$0, \$3, \$5		2	(4)	(6)
Qualifying derivatives, net of tax of \$51, \$57, \$222, \$163	(61)	(94)	(323)	(252)
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0				3
Defined benefit plans:				
Prior service costs, net of tax of (\$1), (\$2), (\$4), (\$5)	1	2	6	7
Net actuarial loss, net of tax of (\$6), (\$4), (\$17), (\$14)	17	13	54	36
Total other comprehensive income (loss) attributable to PPL Shareowners	81	(65)	(251)	(21)
Comprehensive income (loss)	436	384	920	1,033
Comprehensive income attributable to noncontrolling interests		5	4	13
Comprehensive income (loss) attributable to PPL Shareowners	\$ 436	\$ 379	\$ 916	\$ 1,020

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2012	2011
Cash Flows from Operating Activities		
Net income	\$ 1,171	\$ 1,054
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	813	697
Amortization	144	180
Defined benefit plans - expense	123	165
Deferred income taxes and investment tax credits	298	403
Unrealized (gains) losses on derivatives, and other hedging activities	21	(190)
Other	34	110
Change in current assets and current liabilities		
Accounts receivable	19	(134)
Accounts payable	(175)	(164)
Unbilled revenues	121	236
Prepayments	(11)	286
Counterparty collateral	13	(273)
Taxes	29	(64)
Accrued interest	43	111
Other	15	87
Other operating activities		
Defined benefit plans - funding	(526)	(565)
Other assets	1	(22)
Other liabilities	(39)	(71)
Net cash provided by operating activities	<u>2,094</u>	<u>1,846</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(2,078)	(1,685)
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	(112)	(144)
Proceeds from the sale of nuclear plant decommissioning trust investments	102	134
Proceeds from the sale of other investments	20	163
Net (increase) decrease in restricted cash and cash equivalents	62	(51)
Other investing activities	(26)	(74)
Net cash provided by (used in) investing activities	<u>(2,116)</u>	<u>(7,039)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	824	5,245
Retirement of long-term debt	(105)	(708)
Issuance of common stock	54	2,281
Payment of common stock dividends	(623)	(543)
Redemption of preference stock of a subsidiary	(250)	
Debt issuance and credit facility costs	(10)	(84)
Contract adjustment payments	(71)	(49)
Net increase (decrease) in short-term debt	(51)	(322)
Other financing activities	(8)	(16)
Net cash provided by (used in) financing activities	<u>(240)</u>	<u>5,804</u>
Effect of Exchange Rates on Cash and Cash Equivalents	<u>6</u>	<u>(25)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(256)</u>	<u>586</u>
Cash and Cash Equivalents at Beginning of Period	1,202	925
Cash and Cash Equivalents at End of Period	<u>\$ 946</u>	<u>\$ 1,511</u>

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)

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 946	\$ 1,202
Short-term investments		16
Restricted cash and cash equivalents	88	152
Accounts receivable (less reserve: 2012, \$63; 2011, \$54)		
Customer	763	736
Other	51	91
Unbilled revenues	711	830
Fuel, materials and supplies	663	654
Prepayments	167	160
Price risk management assets	1,768	2,548
Regulatory assets	21	9
Other current assets	49	28
Total Current Assets	<u>5,227</u>	<u>6,426</u>
Investments		
Nuclear plant decommissioning trust funds	711	640
Other investments	67	78
Total Investments	<u>778</u>	<u>718</u>
Property, Plant and Equipment		
Regulated utility plant	24,415	22,994
Less: accumulated depreciation - regulated utility plant	4,011	3,534
Regulated utility plant, net	<u>20,404</u>	<u>19,460</u>
Non-regulated property, plant and equipment		
Generation	11,190	10,514
Nuclear fuel	524	457
Other	698	637
Less: accumulated depreciation - non-regulated property, plant and equipment	5,875	5,676
Non-regulated property, plant and equipment, net	<u>6,537</u>	<u>5,932</u>
Construction work in progress	2,106	1,874
Property, Plant and Equipment, net (a)	<u>29,047</u>	<u>27,266</u>
Other Noncurrent Assets		
Regulatory assets	1,323	1,349
Goodwill	4,130	4,114
Other intangibles (a)	913	1,065
Price risk management assets	860	920
Other noncurrent assets	962	790
Total Other Noncurrent Assets	<u>8,188</u>	<u>8,238</u>
Total Assets	<u>\$ 43,240</u>	<u>\$ 42,648</u>

(a) At September 30, 2012 and December 31, 2011, includes \$428 million and \$416 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and \$10 million and \$11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

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

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 526	\$ 578
Long-term debt due within one year	313	
Accounts payable	1,071	1,214
Taxes	95	65
Interest	335	287
Dividends	210	207
Price risk management liabilities	1,184	1,570
Regulatory liabilities	65	73
Other current liabilities	1,088	1,261
Total Current Liabilities	<u>4,887</u>	<u>5,255</u>
Long-term Debt	<u>18,711</u>	<u>17,993</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	3,705	3,326
Investment tax credits	315	285
Price risk management liabilities	884	840
Accrued pension obligations	1,086	1,313
Asset retirement obligations	500	484
Regulatory liabilities	999	1,010
Other deferred credits and noncurrent liabilities	921	1,046
Total Deferred Credits and Other Noncurrent Liabilities	<u>8,410</u>	<u>8,304</u>
Commitments and Contingent Liabilities (Notes 6 and 10)		
Equity		
PPL Shareowners' Common Equity		
Common stock - \$0.01 par value (a)	6	6
Additional paid-in capital	6,912	6,813
Earnings reinvested	5,335	4,797
Accumulated other comprehensive loss	(1,039)	(788)
Total PPL Shareowners' Common Equity	<u>11,214</u>	<u>10,828</u>
Noncontrolling Interests	<u>18</u>	<u>268</u>
Total Equity	<u>11,232</u>	<u>11,096</u>
Total Liabilities and Equity	<u>\$ 43,240</u>	<u>\$ 42,648</u>

(a) 780,000 shares authorized; 580,970 and 578,405 shares issued and outstanding at September 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 Shareowners						Total
	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Non- controlling interests	
June 30, 2012	580,213	\$ 6	\$ 6,886	\$ 5,190	\$ (1,120)	\$ 18	\$ 10,980
Common stock issued (b)	757		21				21
Stock-based compensation (c)			5				5
Net income				355			355
Dividends, dividend equivalents, redemptions and distributions (e)				(210)			(210)
Other comprehensive income (loss)					81		81
September 30, 2012	<u>580,970</u>	<u>\$ 6</u>	<u>\$ 6,912</u>	<u>\$ 5,335</u>	<u>\$ (1,039)</u>	<u>\$ 18</u>	<u>\$ 11,232</u>
December 31, 2011	578,405	\$ 6	\$ 6,813	\$ 4,797	\$ (788)	\$ 268	\$ 11,096
Common stock issued (b)	2,565		71				71
Stock-based compensation (c)			28				28
Net income				1,167		4	1,171
Dividends, dividend equivalents, redemptions and distributions (e)				(629)		(254)	(883)
Other comprehensive income (loss)					(251)		(251)
September 30, 2012	<u>580,970</u>	<u>\$ 6</u>	<u>\$ 6,912</u>	<u>\$ 5,335</u>	<u>\$ (1,039)</u>	<u>\$ 18</u>	<u>\$ 11,232</u>
June 30, 2011	577,265	\$ 6	\$ 6,774	\$ 4,306	\$ (435)	\$ 268	\$ 10,919
Common stock issued (b)	579		16				16
Stock-based compensation (c)			5				5
Net income				444		5	449
Dividends, dividend equivalents and distributions (e)				(203)		(5)	(208)
Other comprehensive income (loss)					(65)		(65)
September 30, 2011	<u>577,844</u>	<u>\$ 6</u>	<u>\$ 6,795</u>	<u>\$ 4,547</u>	<u>\$ (500)</u>	<u>\$ 268</u>	<u>\$ 11,116</u>
December 31, 2010	483,391	\$ 5	\$ 4,602	\$ 4,082	\$ (479)	\$ 268	\$ 8,478
Common stock issued (b)	94,453	1	2,328				2,329
Purchase Contracts (d)			(141)				(141)
Stock-based compensation (c)			6				6
Net income				1,041		13	1,054
Dividends, dividend equivalents and distributions (e)				(576)		(13)	(589)
Other comprehensive income (loss)					(21)		(21)
September 30, 2011	<u>577,844</u>	<u>\$ 6</u>	<u>\$ 6,795</u>	<u>\$ 4,547</u>	<u>\$ (500)</u>	<u>\$ 268</u>	<u>\$ 11,116</u>

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareowners' meeting.

(b) Each period includes shares of common stock issued through various stock and incentive compensation plans. The nine months ended September 30, 2011 includes the April issuance of 92 million shares of common stock.

(c) The three and nine months ended September 30, 2012 include \$7 million and \$42 million and the three and nine months ended September 30, 2011 include \$5 million and \$27 million of stock-based compensation expense related to new and existing unvested equity awards. The three and nine months ended September 30, 2012 include \$(2) million and \$(14) million and the nine months ended September 30, 2011 includes \$(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 nine months ended September 30, 2011 include \$123 million for the 2011 Purchase Contracts and \$18 million of related fees and expenses, net of tax.

(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		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Operating Revenues				
Wholesale energy marketing				
Realized	\$ 1,076	\$ 907	\$ 3,367	\$ 2,677
Unrealized economic activity (Note 14)	(716)	216	(322)	229
Wholesale energy marketing to affiliate	23	5	61	15
Unregulated retail electric and gas	219	190	623	518
Net energy trading margins	(11)	(7)	7	14
Energy-related businesses	128	130	336	354
Total Operating Revenues	719	1,441	4,072	3,807
Operating Expenses				
Operation				
Fuel	321	358	728	826
Energy purchases				
Realized	421	161	1,715	701
Unrealized economic activity (Note 14)	(569)	176	(420)	49
Energy purchases from affiliate	1	1	2	3
Other operation and maintenance	220	208	769	741
Depreciation	73	62	206	181
Taxes, other than income	18	18	53	50
Energy-related businesses	125	130	326	350
Total Operating Expenses	610	1,114	3,379	2,901
Operating Income	109	327	693	906
Other Income (Expense) - net	4	2	14	20
Other-Than-Temporary Impairments		5	1	6
Interest Income from Affiliates	1	2	2	6
Interest Expense	43	52	123	150
Income from Continuing Operations Before Income Taxes	71	274	585	776
Income Taxes	16	104	202	305
Income from Continuing Operations After Income Taxes	55	170	383	471
Income (Loss) from Discontinued Operations (net of income taxes)				2
Net Income	55	170	383	473
Net Income Attributable to Noncontrolling Interests	1	1	1	1
Net Income Attributable to PPL Energy Supply Member	\$ 54	\$ 169	\$ 382	\$ 472
Amounts Attributable to PPL Energy Supply Member:				
Income from Continuing Operations After Income Taxes	\$ 54	\$ 169	\$ 382	\$ 470
Income (Loss) from Discontinued Operations (net of income taxes)				2
Net Income	\$ 54	\$ 169	\$ 382	\$ 472

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		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net income	\$ 55	\$ 170	\$ 383	\$ 473
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Available-for-sale securities, net of tax of (\$14), \$28, (\$34), \$15	13	(26)	28	(13)
Qualifying derivatives, net of tax of (\$1), (\$27), (\$53), (\$48)	(1)	39	46	68
Defined benefit plans:				
Net actuarial gain (loss), net of tax of \$0, \$0, \$0, \$0		1		1
Reclassifications to net income - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of \$0, \$0, \$3, \$5		2	(4)	(6)
Qualifying derivatives, net of tax of \$62, \$50, \$230, \$153	(92)	(73)	(339)	(220)
Equity investee's other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0				3
Defined benefit plans:				
Prior service costs, net of tax of (\$1), (\$1), (\$2), (\$3)	1	1	4	3
Net actuarial loss, net of tax of (\$1), (\$1), (\$1), (\$2)	2	1	8	3
Total other comprehensive income (loss) attributable to PPL Energy Supply Member	(77)	(55)	(257)	(161)
Comprehensive income (loss)	(22)	115	126	312
Comprehensive income attributable to noncontrolling interests	1	1	1	1
Comprehensive income (loss) attributable to PPL Energy Supply Member	\$ (23)	\$ 114	\$ 125	\$ 311

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

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

(Unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2012	2011
Cash Flows from Operating Activities		
Net income	\$ 383	\$ 473
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	206	182
Amortization	93	96
Defined benefit plans - expense	33	26
Deferred income taxes and investment tax credits	132	226
Unrealized (gains) losses on derivatives, and other hedging activities	(37)	(155)
Other	33	42
Change in current assets and current liabilities		
Accounts receivable	(26)	(43)
Accounts payable	(110)	(163)
Unbilled revenues	78	116
Counterparty collateral	12	(273)
Other	(48)	92
Other operating activities		
Defined benefit plans - funding	(70)	(136)
Other assets	(16)	(31)
Other liabilities	11	(12)
Net cash provided by operating activities	<u>674</u>	<u>440</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(460)	(499)
Proceeds from the sale of certain non-core generation facilities		381
Ironwood Acquisition, net of cash acquired	(84)	
Expenditures for intangible assets	(36)	(45)
Purchases of nuclear plant decommissioning trust investments	(112)	(144)
Proceeds from the sale of nuclear plant decommissioning trust investments	102	134
Net (increase) decrease in notes receivable from affiliates	198	
Net (increase) decrease in restricted cash and cash equivalents	70	(36)
Other investing activities	14	7
Net cash provided by (used in) investing activities	<u>(308)</u>	<u>(202)</u>
Cash Flows from Financing Activities		
Retirement of long-term debt	(6)	(250)
Contributions from member	472	361
Distributions to member	(733)	(209)
Cash included in net assets of subsidiary distributed to member		(325)
Net increase (decrease) in short-term debt	(45)	(100)
Other financing activities	(1)	(1)
Net cash provided by (used in) financing activities	<u>(313)</u>	<u>(524)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	53	(286)
Cash and Cash Equivalents at Beginning of Period	<u>379</u>	<u>661</u>
Cash and Cash Equivalents at End of Period	<u>\$ 432</u>	<u>\$ 375</u>

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)

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 432	\$ 379
Restricted cash and cash equivalents	80	145
Accounts receivable (less reserve: 2012, \$23; 2011, \$15)		
Customer	190	169
Other	25	31
Accounts receivable from affiliates	101	89
Unbilled revenues	324	402
Notes receivable from affiliates		198
Fuel, materials and supplies	318	298
Prepayments	20	14
Price risk management assets	1,767	2,527
Other current assets	6	11
Total Current Assets	<u>3,263</u>	<u>4,263</u>
Investments		
Nuclear plant decommissioning trust funds	711	640
Other investments	43	40
Total Investments	<u>754</u>	<u>680</u>
Property, Plant and Equipment		
Non-regulated property, plant and equipment		
Generation	11,199	10,517
Nuclear fuel	524	457
Other	260	245
Less: accumulated depreciation - non-regulated property, plant and equipment	5,750	5,573
Non-regulated property, plant and equipment, net	6,233	5,646
Construction work in progress	935	840
Property, Plant and Equipment, net (a)	<u>7,168</u>	<u>6,486</u>
Other Noncurrent Assets		
Goodwill	86	86
Other intangibles (a)	249	386
Price risk management assets	837	896
Other noncurrent assets	379	382
Total Other Noncurrent Assets	<u>1,551</u>	<u>1,750</u>
Total Assets	<u>\$ 12,736</u>	<u>\$ 13,179</u>

(a) At September 30, 2012 and December 31, 2011, includes \$428 million and \$416 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and \$10 million and \$11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

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

CONDENSED CONSOLIDATED BALANCE SHEETS**PPL Energy Supply, LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 355	\$ 400
Long-term debt due within one year	313	
Accounts payable	384	472
Accounts payable to affiliates	1	14
Taxes	62	90
Interest	55	30
Price risk management liabilities	1,141	1,560
Counterparty collateral	160	148
Deferred income taxes	190	315
Other current liabilities	209	196
Total Current Liabilities	<u>2,870</u>	<u>3,225</u>
Long-term Debt	<u>2,962</u>	<u>3,024</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,301	1,223
Investment tax credits	171	136
Price risk management liabilities	806	785
Accrued pension obligations	161	214
Asset retirement obligations	360	349
Other deferred credits and noncurrent liabilities	204	186
Total Deferred Credits and Other Noncurrent Liabilities	<u>3,003</u>	<u>2,893</u>
Commitments and Contingent Liabilities (Note 10)		
Equity		
Member's equity	3,883	4,019
Noncontrolling interests	18	18
Total Equity	<u>3,901</u>	<u>4,037</u>
Total Liabilities and Equity	<u>\$ 12,736</u>	<u>\$ 13,179</u>

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)

	<u>Member's equity</u>	<u>Non- controlling interests</u>	<u>Total</u>
June 30, 2012	\$ 3,982	\$ 18	\$ 4,000
Net income	54	1	55
Other comprehensive income (loss)	(77)		(77)
Distributions	(76)	(1)	(77)
September 30, 2012	<u>\$ 3,883</u>	<u>\$ 18</u>	<u>\$ 3,901</u>
December 31, 2011	\$ 4,019	\$ 18	\$ 4,037
Net income	382	1	383
Other comprehensive income (loss)	(257)		(257)
Contributions from member	472		472
Distributions	(733)	(1)	(734)
September 30, 2012	<u>\$ 3,883</u>	<u>\$ 18</u>	<u>\$ 3,901</u>
June 30, 2011	\$ 3,434	\$ 18	\$ 3,452
Net income	169	1	170
Other comprehensive income (loss)	(55)		(55)
Contributions from member	193		193
Distributions	(75)	(1)	(76)
September 30, 2011	<u>\$ 3,666</u>	<u>\$ 18</u>	<u>\$ 3,684</u>
December 31, 2010	\$ 4,491	\$ 18	\$ 4,509
Net income	472	1	473
Other comprehensive income (loss)	(161)		(161)
Contributions from member	361		361
Distributions	(209)	(1)	(210)
Distribution of membership interest in PPL Global (a)	(1,288)		(1,288)
September 30, 2011	<u>\$ 3,666</u>	<u>\$ 18</u>	<u>\$ 3,684</u>

(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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Operating Revenues				
Retail electric	\$ 443	\$ 454	\$ 1,303	\$ 1,444
Electric revenue from affiliate	1	1	3	9
Total Operating Revenues	444	455	1,306	1,453
Operating Expenses				
Operation				
Energy purchases	137	171	410	591
Energy purchases from affiliate	23	5	61	15
Other operation and maintenance	148	146	431	402
Depreciation	41	38	119	108
Taxes, other than income	24	26	72	83
Total Operating Expenses	373	386	1,093	1,199
Operating Income	71	69	213	254
Other Income (Expense) - net	3	3	6	4
Interest Expense	25	26	73	74
Income Before Income Taxes	49	46	146	184
Income Taxes	16	14	47	56
Net Income (a)	33	32	99	128
Distributions on Preference Stock		4	4	12
Net Income Available to PPL	\$ 33	\$ 28	\$ 95	\$ 116

(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)

	Nine Months Ended September 30,	
	2012	2011
Cash Flows from Operating Activities		
Net income	\$ 99	\$ 128
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	119	108
Amortization	13	5
Defined benefit plans - expense	17	13
Deferred income taxes and investment tax credits	72	9
Other	3	2
Change in current assets and current liabilities		
Accounts receivable	48	(5)
Accounts payable	(43)	(105)
Unbilled revenues	18	53
Prepayments	2	58
Regulatory assets and liabilities	(1)	95
Taxes		19
Other	(5)	(7)
Other operating activities		
Defined benefit plans - funding	(54)	(102)
Other assets		(1)
Other liabilities	(27)	(9)
Net cash provided by (used in) operating activities	<u>261</u>	<u>261</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(407)	(357)
Net (increase) decrease in notes receivable from affiliates	(210)	
Other investing activities	3	4
Net cash provided by (used in) investing activities	<u>(614)</u>	<u>(353)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	249	645
Retirement of long-term debt		(458)
Contributions from parent	150	56
Redemption of preference stock	(250)	
Payment of common stock dividends to parent	(75)	(76)
Other financing activities	(10)	(18)
Net cash provided by (used in) financing activities	<u>64</u>	<u>149</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(289)	57
Cash and Cash Equivalents at Beginning of Period	<u>320</u>	<u>204</u>
Cash and Cash Equivalents at End of Period	<u>\$ 31</u>	<u>\$ 261</u>

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)

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 31	\$ 320
Accounts receivable (less reserve: 2012, \$17; 2011, \$17)		
Customer	259	271
Other	6	9
Accounts receivable from affiliates	3	35
Notes receivable from affiliates	210	
Unbilled revenues	80	98
Materials and supplies	38	42
Prepayments	76	78
Other current assets	30	30
Total Current Assets	<u>733</u>	<u>883</u>
Property, Plant and Equipment		
Regulated utility plant	6,104	5,830
Less: accumulated depreciation - regulated utility plant	<u>2,300</u>	<u>2,217</u>
Regulated utility plant, net	3,804	3,613
Other, net	2	2
Construction work in progress	348	242
Property, Plant and Equipment, net	<u>4,154</u>	<u>3,857</u>
Other Noncurrent Assets		
Regulatory assets	733	729
Intangibles	164	155
Other noncurrent assets	82	81
Total Other Noncurrent Assets	<u>979</u>	<u>965</u>
Total Assets	<u>\$ 5,866</u>	<u>\$ 5,705</u>

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)

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Liabilities and Equity		
Current Liabilities		
Accounts payable	\$ 173	\$ 171
Accounts payable to affiliates	57	64
Interest	19	24
Regulatory liabilities	52	53
Customer deposits and prepayments	26	39
Vacation	23	22
Other current liabilities	50	47
Total Current Liabilities	<u>400</u>	<u>420</u>
Long-term Debt	<u>1,967</u>	<u>1,718</u>
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,187	1,115
Investment tax credits	4	5
Accrued pension obligations	142	186
Regulatory liabilities	12	7
Other deferred credits and noncurrent liabilities	109	129
Total Deferred Credits and Other Noncurrent Liabilities	<u>1,454</u>	<u>1,442</u>
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	1,129	979
Earnings reinvested	552	532
Total Equity	<u>2,045</u>	<u>2,125</u>
Total Liabilities and Equity	<u>\$ 5,866</u>	<u>\$ 5,705</u>

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at September 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
June 30, 2012	66,368	\$	\$ 364	\$ 979	\$ 538	\$ 1,881
Net income					33	33
Capital contributions from PPL				150		150
Cash dividends declared on common stock					(19)	(19)
September 30, 2012	<u>66,368</u>	<u>\$</u>	<u>\$ 364</u>	<u>\$ 1,129</u>	<u>\$ 552</u>	<u>\$ 2,045</u>
December 31, 2011	66,368	\$	250	\$ 364	\$ 979	\$ 532
Net income					99	99
Redemption of preference stock (b)			(250)			(250)
Capital contributions from PPL				150		150
Cash dividends declared on preference stock					(4)	(4)
Cash dividends declared on common stock					(75)	(75)
September 30, 2012	<u>66,368</u>	<u>\$</u>	<u>\$ 364</u>	<u>\$ 1,129</u>	<u>\$ 552</u>	<u>\$ 2,045</u>
June 30, 2011	66,368	\$	250	\$ 364	\$ 879	\$ 487
Net income					32	32
Capital contributions from PPL				56		56
Cash dividends declared on preference stock					(4)	(4)
Cash dividends declared on common stock					(24)	(24)
September 30, 2011	<u>66,368</u>	<u>\$</u>	<u>250</u>	<u>\$ 364</u>	<u>\$ 935</u>	<u>\$ 491</u>
December 31, 2010	66,368	\$	250	\$ 364	\$ 879	\$ 451
Net income					128	128
Capital contributions from PPL				56		56
Cash dividends declared on preference stock					(12)	(12)
Cash dividends declared on common stock					(76)	(76)
September 30, 2011	<u>66,368</u>	<u>\$</u>	<u>250</u>	<u>\$ 364</u>	<u>\$ 935</u>	<u>\$ 491</u>

(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		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Operating Revenues	\$ 732	\$ 736	\$ 2,095	\$ 2,140
Operating Expenses				
Operation				
Fuel	249	245	677	666
Energy purchases	27	32	135	179
Other operation and maintenance	186	187	589	566
Depreciation	87	84	259	249
Taxes, other than income	11	10	34	28
Total Operating Expenses	<u>560</u>	<u>558</u>	<u>1,694</u>	<u>1,688</u>
Operating Income	172	178	401	452
Other Income (Expense) - net	(4)		(14)	(1)
Interest Expense	<u>37</u>	<u>36</u>	<u>112</u>	<u>108</u>
Income from Continuing Operations Before Income Taxes	131	142	275	343
Income Taxes	<u>48</u>	<u>52</u>	<u>89</u>	<u>125</u>
Income from Continuing Operations After Income Taxes	83	90	186	218
Income (Loss) from Discontinued Operations (net of income taxes)		(1)	(6)	(1)
Net Income (a)	<u>\$ 83</u>	<u>\$ 89</u>	<u>\$ 180</u>	<u>\$ 217</u>

(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)

	Nine Months Ended September 30,	
	2012	2011
Cash Flows from Operating Activities		
Net income	\$ 180	\$ 217
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	259	249
Amortization	20	20
Defined benefit plans - expense	30	38
Deferred income taxes and investment tax credits	92	206
Other	(5)	(14)
Change in current assets and current liabilities		
Accounts receivable	(25)	1
Accounts payable	4	(28)
Unbilled revenues	26	58
Fuel, materials and supplies	4	30
Income tax receivable	3	40
Taxes	51	2
Other	48	19
Other operating activities		
Defined benefit plans - funding	(66)	(159)
Other assets	(3)	(8)
Other liabilities	28	12
Net cash provided by operating activities	<u>646</u>	<u>683</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(525)	(296)
Proceeds from the sale of other investments		163
Net (increase) decrease in notes receivable from affiliates	9	8
Net (increase) decrease in restricted cash and cash equivalents	(3)	(11)
Net cash provided by (used in) investing activities	<u>(519)</u>	<u>(136)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt		250
Net increase (decrease) in short-term debt		(163)
Debt issuance and credit facility costs	(1)	(6)
Distributions to member	(95)	(469)
Net cash provided by (used in) financing activities	<u>(96)</u>	<u>(388)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	31	159
Cash and Cash Equivalents at Beginning of Period	59	11
Cash and Cash Equivalents at End of Period	<u>\$ 90</u>	<u>\$ 170</u>

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)

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 90	\$ 59
Accounts receivable (less reserve: 2012, \$19; 2011, \$17)		
Customer	158	129
Other	10	20
Unbilled revenues	120	146
Fuel, materials and supplies	278	283
Prepayments	21	22
Notes receivable from affiliates	6	15
Income taxes receivable		3
Deferred income taxes	148	17
Regulatory assets	21	9
Other current assets	6	3
Total Current Assets	<u>858</u>	<u>706</u>
Investments	<u>20</u>	<u>31</u>
Property, Plant and Equipment		
Regulated utility plant	7,865	7,519
Less: accumulated depreciation - regulated utility plant	458	277
Regulated utility plant, net	7,407	7,242
Other, net	3	2
Construction work in progress	650	557
Property, Plant and Equipment, net	<u>8,060</u>	<u>7,801</u>
Other Noncurrent Assets		
Regulatory assets	590	620
Goodwill	996	996
Other intangibles	278	314
Other noncurrent assets	114	108
Total Other Noncurrent Assets	<u>1,978</u>	<u>2,038</u>
Total Assets	<u>\$ 10,916</u>	<u>\$ 10,576</u>

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

CONDENSED CONSOLIDATED BALANCE SHEETS**LG&E and KU Energy LLC and Subsidiaries**

(Unaudited)

(Millions of Dollars)

	September 30, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities		
Accounts payable	\$ 206	\$ 224
Accounts payable to affiliates	2	2
Customer deposits	47	45
Taxes	76	25
Regulatory liabilities	13	20
Interest	51	23
Salaries and benefits	67	59
Other current liabilities	47	35
Total Current Liabilities	509	433
Long-term Debt	4,074	4,073
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	645	413
Investment tax credits	140	144
Accrued pension obligations	316	359
Asset retirement obligations	118	116
Regulatory liabilities	987	1,003
Price risk management liabilities	57	55
Other deferred credits and noncurrent liabilities	248	239
Total Deferred Credits and Other Noncurrent Liabilities	2,511	2,329
Commitments and Contingent Liabilities (Notes 6 and 10)		
Member's equity	3,822	3,741
Total Liabilities and Equity	\$ 10,916	\$ 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
June 30, 2012	\$ 3,774
Net income	83
Distributions to member	(35)
September 30, 2012	<u>\$ 3,822</u>
December 31, 2011	\$ 3,741
Net income	180
Distributions to member	(95)
Other comprehensive income (loss)	(4)
September 30, 2012	<u>\$ 3,822</u>
June 30, 2011	\$ 3,991
Net income	89
Distributions to member	(323)
September 30, 2011	<u>\$ 3,757</u>
December 31, 2010	\$ 4,011
Net income	217
Distributions to member	(469)
Other comprehensive income (loss)	(2)
September 30, 2011	<u>\$ 3,757</u>

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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Operating Revenues				
Retail and wholesale	\$ 324	\$ 323	\$ 939	\$ 974
Electric revenue from affiliate	9	17	51	61
Total Operating Revenues	333	340	990	1,035
Operating Expenses				
Operation				
Fuel	100	98	281	265
Energy purchases	18	24	110	155
Energy purchases from affiliate	3	7	9	25
Other operation and maintenance	87	91	277	272
Depreciation	38	37	114	110
Taxes, other than income	6	5	17	14
Total Operating Expenses	252	262	808	841
Operating Income	81	78	182	194
Other Income (Expense) - net	(3)		(3)	
Interest Expense	10	11	31	34
Income Before Income Taxes	68	67	148	160
Income Taxes	25	24	54	58
Net Income (a)	\$ 43	\$ 43	\$ 94	\$ 102

(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)

	Nine Months Ended September 30,	
	2012	2011
Cash Flows from Operating Activities		
Net income	\$ 94	\$ 102
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	114	110
Amortization	8	9
Defined benefit plans - expense	14	16
Deferred income taxes and investment tax credits	40	38
Other	(11)	2
Change in current assets and current liabilities		
Accounts receivable	(5)	21
Accounts payable	2	(16)
Unbilled revenues	16	39
Fuel, materials and supplies	(10)	16
Taxes	21	9
Other	13	3
Other operating activities		
Defined benefit plans - funding	(26)	(68)
Other assets	(2)	(7)
Other liabilities	(1)	5
Net cash provided by operating activities	<u>267</u>	<u>279</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(193)	(127)
Proceeds from the sale of other investments		163
Net (increase) decrease in restricted cash and cash equivalents	(3)	(11)
Net cash provided by (used in) investing activities	<u>(196)</u>	<u>25</u>
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	(47)	(55)
Net cash provided by (used in) financing activities	<u>(48)</u>	<u>(231)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	23	73
Cash and Cash Equivalents at Beginning of Period	<u>25</u>	<u>2</u>
Cash and Cash Equivalents at End of Period	<u>\$ 48</u>	<u>\$ 75</u>

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)

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 48	\$ 25
Accounts receivable (less reserve: 2012, \$1; 2011, \$2)		
Customer	68	60
Other	5	9
Unbilled revenues	49	65
Accounts receivable from affiliates	12	11
Fuel, materials and supplies	152	142
Prepayments	6	7
Income taxes receivable		4
Deferred income taxes	2	2
Regulatory assets	17	9
Total Current Assets	<u>359</u>	<u>334</u>
Property, Plant and Equipment		
Regulated utility plant	3,142	2,956
Less: accumulated depreciation - regulated utility plant	<u>196</u>	<u>116</u>
Regulated utility plant, net	2,946	2,840
Other, net	1	
Construction work in progress	<u>186</u>	<u>215</u>
Property, Plant and Equipment, net	<u>3,133</u>	<u>3,055</u>
Other Noncurrent Assets		
Regulatory assets	384	403
Goodwill	389	389
Other intangibles	149	166
Other noncurrent assets	44	40
Total Other Noncurrent Assets	<u>966</u>	<u>998</u>
Total Assets	<u>\$ 4,458</u>	<u>\$ 4,387</u>

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

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities		
Accounts payable	\$ 89	\$ 94
Accounts payable to affiliates	24	26
Customer deposits	23	22
Taxes	34	13
Regulatory liabilities	5	10
Interest	11	6
Salaries and benefits	18	14
Other current liabilities	14	14
Total Current Liabilities	218	199
Long-term Debt	1,112	1,112
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	520	475
Investment tax credits	41	43
Accrued pension obligations	71	95
Asset retirement obligations	55	55
Regulatory liabilities	467	478
Price risk management liabilities	57	55
Other deferred credits and noncurrent liabilities	108	113
Total Deferred Credits and Other Noncurrent Liabilities	1,319	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	107	60
Total Equity	1,809	1,762
Total Liabilities and Equity	\$ 4,458	\$ 4,387

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at September 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
June 30, 2012	21,294	\$ 424	\$ 1,278	\$ 80	\$ 1,782
Net income				43	43
Cash dividends declared on common stock				(16)	(16)
September 30, 2012	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,278</u>	<u>\$ 107</u>	<u>\$ 1,809</u>
December 31, 2011	21,294	\$ 424	\$ 1,278	\$ 60	\$ 1,762
Net income				94	94
Cash dividends declared on common stock				(47)	(47)
September 30, 2012	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,278</u>	<u>\$ 107</u>	<u>\$ 1,809</u>
June 30, 2011	21,294	\$ 424	\$ 1,278	\$ 36	\$ 1,738
Net income				43	43
Cash dividends declared on common stock				(13)	(13)
September 30, 2011	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,278</u>	<u>\$ 66</u>	<u>\$ 1,768</u>
December 31, 2010	21,294	\$ 424	\$ 1,278	\$ 19	\$ 1,721
Net income				102	102
Cash dividends declared on common stock				(55)	(55)
September 30, 2011	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,278</u>	<u>\$ 66</u>	<u>\$ 1,768</u>

(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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Operating Revenues				
Retail and wholesale	\$ 408	\$ 413	\$ 1,156	\$ 1,166
Electric revenue from affiliate	3	7	9	25
Total Operating Revenues	411	420	1,165	1,191
Operating Expenses				
Operation				
Fuel	149	147	396	401
Energy purchases	9	8	25	24
Energy purchases from affiliate	9	17	51	61
Other operation and maintenance	93	90	286	274
Depreciation	49	47	145	139
Taxes, other than income	5	5	17	14
Total Operating Expenses	314	314	920	913
Operating Income	97	106	245	278
Other Income (Expense) - net	1		(5)	1
Interest Expense	18	18	52	53
Income Before Income Taxes	80	88	188	226
Income Taxes	30	32	70	82
Net Income (a)	\$ 50	\$ 56	\$ 118	\$ 144

(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)

	Nine Months Ended September 30,	
	2012	2011
Cash Flows from Operating Activities		
Net income	\$ 118	\$ 144
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	145	139
Amortization	9	10
Defined benefit plans - expense	9	11
Deferred income taxes and investment tax credits	78	78
Other	1	(16)
Change in current assets and current liabilities		
Accounts receivable	(34)	8
Accounts payable	9	5
Accounts payable to affiliates	(4)	(21)
Unbilled revenues	10	19
Fuel, materials and supplies	16	14
Taxes	26	(5)
Other	32	15
Other operating activities		
Defined benefit plans - funding	(20)	(46)
Other assets	(1)	(1)
Other liabilities	16	5
Net cash provided by operating activities	<u>410</u>	<u>359</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(331)	(168)
Net cash provided by (used in) investing activities	<u>(331)</u>	<u>(168)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates		(10)
Debt issuance and credit facility costs		(2)
Payment of common stock dividends to parent	(68)	(88)
Net cash provided by (used in) financing activities	<u>(68)</u>	<u>(100)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	11	91
Cash and Cash Equivalents at Beginning of Period	<u>31</u>	<u>3</u>
Cash and Cash Equivalents at End of Period	<u>\$ 42</u>	<u>\$ 94</u>

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

CONDENSED BALANCE SHEETS**Kentucky Utilities Company**

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2012	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	\$ 42	\$ 31
Accounts receivable (less reserve: 2012, \$2; 2011, \$2)		
Customer	90	69
Other	5	9
Unbilled revenues	71	81
Accounts receivable from affiliates	14	
Fuel, materials and supplies	126	141
Prepayments	9	7
Income taxes receivable		5
Deferred income taxes	5	5
Regulatory assets	4	
Other current assets	6	3
Total Current Assets	372	351
Investments	19	31
Property, Plant and Equipment		
Regulated utility plant	4,723	4,563
Less: accumulated depreciation - regulated utility plant	262	161
Regulated utility plant, net	4,461	4,402
Construction work in progress	463	340
Property, Plant and Equipment, net	4,924	4,742
Other Noncurrent Assets		
Regulatory assets	206	217
Goodwill	607	607
Other intangibles	129	148
Other noncurrent assets	60	60
Total Other Noncurrent Assets	1,002	1,032
Total Assets	\$ 6,317	\$ 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)

	September 30, 2012	December 31, 2011
Liabilities and Equity		
Current Liabilities		
Accounts payable	\$ 107	\$ 112
Accounts payable to affiliates	29	33
Customer deposits	24	23
Taxes	37	11
Regulatory liabilities	8	10
Interest	25	11
Salaries and benefits	14	15
Other current liabilities	30	13
Total Current Liabilities	274	228
Long-term Debt	1,842	1,842
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	563	484
Investment tax credits	99	101
Accrued pension obligations	72	83
Asset retirement obligations	63	61
Regulatory liabilities	520	525
Other deferred credits and noncurrent liabilities	93	87
Total Deferred Credits and Other Noncurrent Liabilities	1,410	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	139	89
Total Equity	2,791	2,745
Total Liabilities and Equity	\$ 6,317	\$ 6,156

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at September 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
June 30, 2012	37,818	\$ 308	\$ 2,348	\$ 109	\$ (4)	\$ 2,761
Net income				50		50
Cash dividends declared on common stock				(20)		(20)
September 30, 2012	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,348</u>	<u>\$ 139</u>	<u>\$ (4)</u>	<u>\$ 2,791</u>
December 31, 2011	37,818	\$ 308	\$ 2,348	\$ 89		\$ 2,745
Net income				118		118
Cash dividends declared on common stock				(68)		(68)
Other comprehensive income (loss)					\$ (4)	(4)
September 30, 2012	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,348</u>	<u>\$ 139</u>	<u>\$ (4)</u>	<u>\$ 2,791</u>
June 30, 2011	37,818	\$ 308	\$ 2,348	\$ 55	\$ (1)	\$ 2,710
Net income				56		56
Cash dividends declared on common stock				(20)		(20)
Other comprehensive income (loss)					1	1
September 30, 2011	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,348</u>	<u>\$ 91</u>	<u>\$</u>	<u>\$ 2,747</u>
December 31, 2010	37,818	\$ 308	\$ 2,348	\$ 35		\$ 2,691
Net income				144		144
Cash dividends declared on common stock				(88)		(88)
September 30, 2011	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,348</u>	<u>\$ 91</u>	<u>\$</u>	<u>\$ 2,747</u>

(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 nine months ended September 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 September 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 September 30, 2012 include three and nine months of WPD Midlands' results, compared with three and five 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 nine months ended September 30, 2012, PPL Electric purchased \$225 million and \$647 million of accounts receivable from unaffiliated third parties and \$81 million and \$237 million from its affiliate, PPL EnergyPlus. During the three and nine months ended September 30, 2011, PPL Electric purchased \$222 million and \$674 million of accounts receivable from unaffiliated third parties and \$71 million and \$191 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 that 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 2011 operating results of the U.K. Regulated segment for the nine-month period include five months of WPD Midlands results.

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

	Three Months		Nine Months	
	2012	2011	2012	2011
Income Statement Data				
Revenues from external customers				
Kentucky Regulated	\$ 732	\$ 736	\$ 2,095	\$ 2,140
U.K. Regulated	528	493	1,647	1,138
Pennsylvania Regulated	443	454	1,303	1,444
Supply (a)	700	1,437	4,019	3,797
Total	<u>\$ 2,403</u>	<u>\$ 3,120</u>	<u>\$ 9,064</u>	<u>\$ 8,519</u>
Intersegment electric revenues				
Pennsylvania Regulated	\$ 1	\$ 1	\$ 3	\$ 9
Supply	23	5	61	15
Net Income Attributable to PPL Shareowners				
Kentucky Regulated	\$ 72	\$ 78	\$ 148	\$ 184
U.K. Regulated	202	138	563	231
Pennsylvania Regulated	33	28	95	116
Supply (a)	48	200	361	510
Total	<u>\$ 355</u>	<u>\$ 444</u>	<u>\$ 1,167</u>	<u>\$ 1,041</u>

	September 30, 2012	December 31, 2011
Balance Sheet Data		
Assets		
Kentucky Regulated	\$ 10,546	\$ 10,229
U.K. Regulated	14,015	13,364
Pennsylvania Regulated	5,823	5,610
Supply	12,856	13,445
Total assets	<u>\$ 43,240</u>	<u>\$ 42,648</u>

(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. For the three and nine months ended September 30, 2012 and 2011, these securities included stock options and performance units granted under incentive compensation plans and the Purchase Contracts associated with Equity Units. For the three and nine months ended September 30, 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 nine months ended September 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 are 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 2010 Purchase Contracts were dilutive for the three and nine months ended September 30, 2012. Subject to antidilution adjustments at September 30, 2012, the maximum number of shares issuable to settle the Purchase Contracts was 95.8 million shares, including 86.5 million shares that could be issued under standard provisions of the Purchase Contracts and 9.3 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 September 30 used in the EPS calculation are:

	Three Months		Nine Months	
	2012	2011	2012	2011
Income (Numerator)				
Income from continuing operations after income taxes attributable to PPL shareowners	\$ 355	\$ 444	\$ 1,173	\$ 1,039
Less amounts allocated to participating securities	2	2	7	4
Income from continuing operations after income taxes available to PPL common shareowners	<u>\$ 353</u>	<u>\$ 442</u>	<u>\$ 1,166</u>	<u>\$ 1,035</u>
Income (loss) from discontinued operations (net of income taxes) available to PPL common shareowners	<u>\$</u>	<u>\$</u>	<u>\$ (6)</u>	<u>\$ 2</u>
Net income attributable to PPL shareowners	\$ 355	\$ 444	\$ 1,167	\$ 1,041
Less amounts allocated to participating securities	2	2	7	4
Net income available to PPL common shareowners	<u>\$ 353</u>	<u>\$ 442</u>	<u>\$ 1,160</u>	<u>\$ 1,037</u>
Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	580,585	577,595	579,847	541,135
Add incremental non-participating securities:				
Stock options and performance units	635	459	522	345
2010 Purchase Contracts	439		146	
Forward sale agreements	977		415	
Weighted-average shares - Diluted EPS	<u>582,636</u>	<u>578,054</u>	<u>580,930</u>	<u>541,480</u>

	Three Months		Nine Months	
	2012	2011	2012	2011
Basic EPS				
Available to PPL common shareowners:				
Income from continuing operations after income taxes	\$ 0.61	\$ 0.76	\$ 2.01	\$ 1.91
Income (loss) from discontinued operations (net of income taxes)			(0.01)	0.01
Net Income	<u>\$ 0.61</u>	<u>\$ 0.76</u>	<u>\$ 2.00</u>	<u>\$ 1.92</u>

Diluted EPS				
Available to PPL common shareowners:				
Income from continuing operations after income taxes	\$ 0.61	\$ 0.76	\$ 2.01	\$ 1.91
Income (loss) from discontinued operations (net of income taxes)			(0.01)	
Net Income	<u>\$ 0.61</u>	<u>\$ 0.76</u>	<u>\$ 2.00</u>	<u>\$ 1.91</u>

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

(Shares in thousands)	Three Months	Nine Months
Stock-based compensation plans (a)	159	512
ESOP		280
DRIP	598	1,773

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

For the periods ended September 30, the following options to purchase PPL common stock and performance units were excluded from the computations of diluted EPS because the effect would have been antidilutive.

(Shares in thousands)	Three Months		Nine Months	
	2012	2011	2012	2011
Stock options	4,935	4,473	5,622	5,377
Performance units		3	76	3

5. Income Taxes

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

(PPL)

	Three Months		Nine 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%	\$ 130	\$ 196	\$ 539	\$ 518
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	6	8	38	47
State valuation allowance adjustments (a)	2		2	11
Impact of lower U.K. income tax rates (b)	(30)	(12)	(75)	(31)
U.S. income tax on foreign earnings - net of foreign tax credit (c)	1	(10)	2	(25)
Federal and state tax reserve adjustments	(2)	4	(7)	1
Foreign tax reserve adjustments (d)		2	(5)	2
Enactment of the U.K.'s Finance Acts 2012 and 2011 (b)	(74)	(69)	(74)	(69)
Federal income tax credits	(5)	(4)	(12)	(11)
Amortization of investment tax credit	(2)	(2)	(7)	(6)
Depreciation not normalized (a)	(2)	(1)	(6)	(7)
State deferred tax rate change (e)	(6)		(17)	
Net operating loss carryforward adjustments (f)			(9)	
Nondeductible acquisition-related costs (g)		1		9
Other	(1)	(3)	(5)	(10)
Total increase (decrease)	<u>(113)</u>	<u>(86)</u>	<u>(175)</u>	<u>(89)</u>
Total income taxes from continuing operations	<u>\$ 17</u>	<u>\$ 110</u>	<u>\$ 364</u>	<u>\$ 429</u>

(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 nine months ended September 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 2012, enacted in July 2012, reduced the U.K. statutory income tax rate from 25% to 24% retroactive to April 1, 2012 and from 24% to 23% effective April 1, 2013. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit in the third quarter of 2012 related to both rate decreases.

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. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit in the third quarter of 2011 related to both rate decreases.

- (c) During the three and nine months ended September 30, 2011, PPL recorded a \$7 million and \$21 million federal income tax benefit related to U.K. pension contributions.
(d) During the nine months ended September 30, 2012, PPL recorded a tax benefit following resolution of a U.K. tax issue related to interest expense.
(e) During the three and nine months ended September 30, 2012, PPL recorded adjustments related to state deferred tax liabilities.
(f) During the nine months ended September 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 nine months ended September 30, 2011, PPL recorded non-deductible acquisition-related costs (primarily the U.K. stamp duty tax) associated with its acquisition of WPD Midlands.

(PPL Energy Supply)

	Three Months		Nine 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	\$ 96	\$ 205	\$ 272
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	1	11	25	38
State valuation allowance adjustments (a)	2		2	6
Federal and state tax reserve adjustments		1		2
Federal income tax credits	(4)	(5)	(10)	(11)
State deferred tax rate change (b)	(6)		(17)	
Other	(2)	1	(3)	(2)
Total increase (decrease)	(9)	8	(3)	33
Total income taxes from continuing operations	\$ 16	\$ 104	\$ 202	\$ 305

- (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 nine months ended September 30, 2011 related to valuation allowances on state net operating loss carryforwards.
(b) During the three and nine months ended September 30, 2012, PPL Energy Supply recorded adjustments related to state deferred tax liabilities.

(PPL Electric)

	Three Months		Nine Months	
	2012	2011	2012	2011
Reconciliation of Income Tax Expense				
Federal income tax on Income Before Income Taxes at statutory				
tax rate - 35%	\$ 17	\$ 16	\$ 51	\$ 64
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	2	2	7	9
Federal and state tax reserve adjustments	(2)	(2)	(5)	(6)
Federal and state income tax return adjustments (a)				(2)
Depreciation not normalized (a)	(1)	(1)	(5)	(6)
Other		(1)	(1)	(3)
Total increase (decrease)	(1)	(2)	(4)	(8)
Total income taxes	\$ 16	\$ 14	\$ 47	\$ 56

- (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		Nine 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%	\$ 46	\$ 50	\$ 96	\$ 120
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	5	4	7	11
Amortization of investment tax credit	(1)	(1)	(4)	(4)
Net operating loss carryforward adjustments (a)			(9)	
Other	(2)	(1)	(1)	(2)
Total increase (decrease)	2	2	(7)	5
Total income taxes from continuing operations	\$ 48	\$ 52	\$ 89	\$ 125

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

(LG&E)

	Three Months		Nine Months	
	2012	2011	2012	2011
Reconciliation of Income Tax Expense				
Federal income tax on Income Before Income Taxes at statutory				
tax rate - 35%	\$ 24	\$ 23	\$ 52	\$ 56
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	2	2	5	5
Other	(1)	(1)	(3)	(3)
Total increase (decrease)	1	1	2	2
Total income taxes	\$ 25	\$ 24	\$ 54	\$ 58

(KU)

	Three Months		Nine Months	
	2012	2011	2012	2011
Reconciliation of Income Tax Expense				
Federal income tax on Income Before Income Taxes at statutory				
tax rate - 35%	\$ 28	\$ 31	\$ 66	\$ 79
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3	3	6	7
Other	(1)	(2)	(2)	(4)
Total increase (decrease)	2	1	4	3
Total income taxes	\$ 30	\$ 32	\$ 70	\$ 82

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

Changes to unrecognized tax benefits for the periods ended September 30 were as follows.

	Three Months		Nine Months	
	2012	2011	2012	2011
PPL				
Beginning of period	\$ 113	\$ 250	\$ 145	\$ 251
Additions based on tax positions of prior years	2	1	6	2
Reductions based on tax positions of prior years		(14)	(31)	(14)
Additions based on tax positions related to the current year		4		4
Reductions based on tax positions related to the current year	(1)	(1)	(2)	(3)
Lapse of applicable statutes of limitations	(2)	(3)	(6)	(8)
Effects of foreign currency translation		(2)		3
End of period (a)	\$ 112	\$ 235	\$ 112	\$ 235

	Three Months		Nine Months	
	2012	2011	2012	2011
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 (b)				(155)
End of period	<u>\$ 31</u>	<u>\$ 28</u>	<u>\$ 31</u>	<u>\$ 28</u>
PPL Electric				
Beginning of period	\$ 43	\$ 56	\$ 73	\$ 62
Reductions based on tax positions of prior years	(1)		(28)	
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)	(6)	(8)
End of period	<u>\$ 40</u>	<u>\$ 53</u>	<u>\$ 40</u>	<u>\$ 53</u>

- (a) Unrecognized tax benefits at September 30, 2011 included \$146 million of U.K. capital losses related to positions previously recorded on U.K. income tax returns. In October 2011, the U.K. tax authority accepted these capital loss positions. As a result, capital loss carryforwards were increased. PPL reversed the unrecognized tax benefit and recorded a deferred tax asset in the fourth quarter of 2011. Simultaneously, PPL recorded a valuation allowance against the deferred tax asset related to the increase in capital loss carryforwards.
- (b) Represents unrecognized tax benefits derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 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 nine months ended September 30, 2012 and 2011.

At September 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	\$ 105
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 September 30, the total unrecognized tax benefits and related indirect effects that, if recognized, would decrease the effective tax rate were as follows. The amounts for LKE, LG&E and KU were insignificant.

	2012	2011
PPL	\$ 34	\$ 172
PPL Energy Supply	14	12
PPL Electric	4	9

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 adopted the safe harbor method with the filing of its 2011 federal income tax return.

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 claims for refund on the basis that the U.K. WPT was creditable. In September 2010, the U.S. Tax Court (Tax Court) ruled in PPL's favor in a dispute with the IRS, concluding that the U.K. WPT is a creditable tax for U.S. tax purposes. As a result, and with 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. The Supreme Court granted PPL's petition on October 29, 2012, and PPL is assessing what impact, if any, this development will have on its results of operations in the fourth quarter of 2012. PPL expects the case to be decided before the end of the Supreme Court's current term in June 2013 and cannot predict the outcome of this matter.

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	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Current Regulatory Assets:				
Gas supply clause	\$ 6	\$ 6		
Fuel adjustment clause	13	3		
Other	2			
Total current regulatory assets	\$ 21	\$ 9		
Noncurrent Regulatory Assets:				
Defined benefit plans	\$ 583	\$ 615	\$ 266	\$ 276
Taxes recoverable through future rates	299	289	299	289
Storm costs	143	154	31	31
Unamortized loss on debt	99	110	68	77
Interest rate swaps	71	69		
Accumulated cost of removal of utility plant	67	53	67	53
Coal contracts (a)	5	11		
AROs	26	18		
Other	30	30	2	3
Total noncurrent regulatory assets	\$ 1,323	\$ 1,349	\$ 733	\$ 729

	PPL		PPL Electric	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Current Regulatory Liabilities:				
Generation supply charge	\$ 24	\$ 42	\$ 24	\$ 42
ECR	7	7		
Gas supply clause	5	6		
Transmission service charge	5	2	5	2
Transmission formula rate	8	5	8	5
Universal service rider	12	1	12	1
Other	4	10	3	3
Total current regulatory liabilities	\$ 65	\$ 73	\$ 52	\$ 53
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	\$ 673	\$ 651		
Coal contracts (a)	151	180		
Power purchase agreement - OVEC (a)	110	116		
Net deferred tax assets	35	39		
Act 129 compliance rider	12	7	\$ 12	\$ 7
Defined benefit plans	10	9		
Other	8	8		
Total noncurrent regulatory liabilities	\$ 999	\$ 1,010	\$ 12	\$ 7

	LKE		LG&E		KU	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Current Regulatory Assets:						
Gas supply clause	\$ 6	\$ 6	\$ 6	\$ 6		
Fuel adjustment clause	13	3	10	3	\$ 3	
Other	2		1		1	
Total current regulatory assets	\$ 21	\$ 9	\$ 17	\$ 9	\$ 4	
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 317	\$ 339	\$ 210	\$ 225	\$ 107	\$ 114
Storm costs	112	123	61	66	51	57
Unamortized loss on debt	31	33	20	21	11	12
Interest rate swaps	71	69	71	69		
Coal contracts (a)	5	11	2	5	3	6
AROs	26	18	14	11	12	7
Other	28	27	6	6	22	21
Total noncurrent regulatory assets	\$ 590	\$ 620	\$ 384	\$ 403	\$ 206	\$ 217

Current Regulatory Liabilities:						
ECR	\$ 7	\$ 7			\$ 7	\$ 7
Gas supply clause	5	6	\$ 5	\$ 6		
Other	1	7		4	1	3
Total current regulatory liabilities	\$ 13	\$ 20	\$ 5	\$ 10	\$ 8	\$ 10
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	\$ 673	\$ 651	\$ 294	\$ 286	\$ 379	\$ 365
Coal contracts (a)	151	180	66	78	85	102
Power purchase agreement - OVEC (a)	110	116	76	80	34	36
Net deferred tax assets	35	39	28	31	7	8
Defined benefit plans	10	9			10	9
Other	8	8	3	3	5	5
Total noncurrent regulatory liabilities	\$ 987	\$ 1,003	\$ 467	\$ 478	\$ 520	\$ 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 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 asset purchase agreement 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. In November 2012, the KPSC issued an order for a settlement conference to begin on November 13, 2012. A hearing on the original application and subsequent testimony is scheduled to begin on November 27, 2012. LG&E and KU cannot predict the outcome of these proceedings, including the possibility of any agreed stipulations or settlement, which would remain subject to KPSC approval. A final order may be issued in December 2012 or January 2013.

Independent Transmission Operators

In September 2012, LG&E and KU completed the transition of their independent transmission operator contractual arrangements from Southwest Power Pool, Inc. to TranServ International, Inc. This change had previously received approvals of the FERC and the KPSC.

Storm Costs (PPL, LKE and LG&E)

In August 2011, a strong storm hit LG&E's service area causing significant damage and widespread outages for approximately 139,000 customers. LG&E filed an application with the KPSC in September 2011, requesting approval of a regulatory asset recorded to defer, for future recovery, \$7 million in incremental operation and maintenance expenses related to the storm restoration. An order was received in December 2011 granting the request, while the recovery of the regulatory asset will be determined within the current base rate case discussed above in "Rate Case 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 Electric Distribution Companies (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, issued three possible models for the default service "end state" and held a hearing regarding those three models. In September 2012, the PUC issued a Secretarial Letter setting forth an "RMI End State Proposal" for discussion. The PUC is expected to issue a tentative implementation order in early November 2012, following which parties will have 30 days to provide comment. A final implementation order is expected to be issued in the first quarter of 2013. PPL and PPL Electric cannot predict the outcome of the investigation or its impact on their financial condition, or results of operations.

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 (DSIC). 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. 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. In September 2012, PPL Electric filed its Long Term Infrastructure Improvement Plan (LTIIP) describing projects eligible for inclusion in the DSIC. In October 2012, several parties filed comments to the LTIIP but none of the comments requested evidentiary hearings on the LTIIP. A decision on the LTIIP is expected in January 2013. PPL Electric expects to file a petition requesting permission to establish a DSIC in January 2013, with rates proposed to be effective in April 2013.

Rate Case Proceeding

In March 2012, PPL Electric filed a request with the PUC to increase distribution rates by approximately \$105 million, effective January 1, 2013. The proposed distribution rate increase would result in a 2.9% increase over PPL Electric's total rates at the time of the request. PPL Electric's application includes a request for an authorized return on equity of 11.25%. On October 19, 2012, the presiding Administrative Law Judge (ALJ) issued a decision recommending a rate increase of approximately \$64 million, which represents an allowed return on equity of 9.74%. Exceptions to the ALJ's recommendation are due November 8, 2012. PPL Electric expects to file exceptions, together with certain other parties, to the ALJ's recommended decision. The PUC, which is expected to issue its order on the rate request in December 2012, can accept, reject or modify the ALJ's recommendation. PPL and PPL Electric cannot predict the outcome of this proceeding.

ACT 129

Act 129 requires Pennsylvania 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 reduce overall electricity consumption by 1.0% by May 2011 and 3.0% by May 2013, and reduce peak demand by 4.5% for the 100 hours of highest demand by May 2013 (which is determined by actual demand reduction 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. The PUC has confirmed that PPL Electric has met the 2011 requirement.

Act 129 requires the PUC to evaluate the costs and benefits of the EE&C program by November 30, 2013 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, ending May 31, 2016, 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. In August 2012 PPL Electric filed a Petition for Reconsideration of the PUC's Order, which the PUC denied. In August 2012, PPL Electric also filed a Petition for an Evidentiary Hearing regarding its consumption reduction target. The PUC assigned the petition to an ALJ. A hearing on the petition was held on October 18, 2012. The ALJ will certify the record of the hearing to the PUC for a decision. EDCs must file Phase II plans with the PUC by November 15, 2012. PPL and PPL Electric cannot predict the outcome of the foregoing proceedings.

Act 129 also requires the Default Service Provider (DSP) to provide electric generation supply service to customers pursuant to a PUC-approved default service 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 proposed a process to obtain supply for its default service customers and a number of initiatives designed to encourage more customers to purchase electricity from the competitive retail market. The PUC assigned PPL Electric's plan to an ALJ. Hearings were held in September 2012 and a recommended decision is expected in the fourth quarter of 2012. The PUC is expected to rule on the plan in early 2013.

Storm Costs

PPL Electric experienced several PUC-reportable storms during the three and nine months ended September 30, 2011 resulting in total restoration costs of \$34 million and \$59 million, of which \$23 million and \$39 million were recorded in "Other operation and maintenance" on the Statement of Income. Although PPL Electric has storm insurance with a PPL affiliate, the costs associated with the unusually high number of PUC-reportable storms exceeded policy limits. Probable recoveries on insurance claims of \$26.5 million were recorded at September 30, 2011, of which \$7 million and \$16 million were recorded during the three and nine months ended September 30, 2011 in "Other operation and maintenance" on the Statement of Income, with the remainder recorded in PP&E on the Balance Sheet. In December 2011, PPL Electric received orders from the PUC granting permission to defer qualifying storm costs in excess of insurance recoveries associated with Hurricane Irene and a late October 2011 snowstorm. In the recommended decision in the distribution rate proceeding discussed above in "Pennsylvania Activities - Rate Case Proceeding," the presiding ALJ recommended that PPL Electric be allowed to recover deferred storm costs of approximately \$27 million over a five-year period. The PUC, which is expected to issue its order in December 2012, can accept, reject or modify the ALJ's recommendation. New rates will become effective on January 1, 2013. PPL and PPL Electric cannot predict the outcome of this proceeding. In 2012, PPL Electric increased the deductible under its insurance policy to \$15.75 million and, therefore, would only request insurance recovery of reportable storm costs exceeding that amount. During the three and nine months ended September 30, 2012, PPL Electric incurred \$13 million in restoration costs, of which \$9 million was recorded in "Other operation and maintenance" on the Statement of Income.

In late October 2012, PPL Electric experienced widespread significant damage to its transmission and distribution network from Hurricane Sandy. The total costs associated with the restoration efforts are still being finalized but are estimated to be in excess of \$60 million. PPL Electric has insurance coverage that could cover a portion of the costs incurred from Hurricane Sandy. PPL Electric will have the ability to file a request with the PUC for permission to defer for future recovery certain of the costs incurred to repair the distribution network in excess of the insurance coverage. Costs incurred to repair the transmission network are recoverable through the FERC Formula Rate mechanism which is updated annually.

Transmission Service Charge Adjustment (PPL Electric)

During the three and nine months ended September 30, 2011, PPL Electric recorded a \$7 million (\$4 million after-tax) charge to "Retail electric" revenue on the Statement of Income to reduce a portion of the transmission service charge regulatory asset associated with a 2005 undercollection that was not included in any subsequent rate reconciliations filed with the PUC. The impact of this charge was not material to any previously reported financial statements and was not material to the financial statements for the full year of 2011.

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 September 2012, the FERC issued an order setting for evidentiary hearings a number of issues raised in the 2010 formal challenge and a number of issues raised in the 2011 formal challenge. The FERC held the hearings in abeyance for settlement judge proceedings and assigned a settlement judge. PPL Electric filed a request for rehearing of the September 2012 order in late October 2012. An initial settlement meeting will be scheduled in November 2012.

In May 2012, PPL Electric initiated its formula rate 2012 Annual Update which currently is in the 180-day review and challenge period. In October 2012, the group of municipal customers filed a preliminary challenge to the 2012 Annual Update. PPL Electric will meet with representatives of the customers in an attempt to resolve the challenge. PPL and 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 September 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 \$172 million liability recorded at September 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. In October 2012, a license modification was issued to allow Ofgem to publish the final decisions on these matters by April 2013. PPL cannot predict the outcome of this matter.

European Market Infrastructure Regulation

Regulation No. 648/2012 of the European Parliament and of the Council, commonly referred to as the European Market Infrastructure Regulation (EMIR), entered into force on August 16, 2012 and, subject to approval by the European Commission of final technical standards, is expected to become effective in January 2013. The EMIR establishes certain transaction clearing and other recordkeeping requirements for parties to over-the-counter derivatives transactions. Included in the derivative transactions that are subject to EMIR are certain interest rate and currency derivative contracts utilized by WPD. Generally, WPD is expected to qualify under the EMIR as a non-financial counterparty to the transactions in which it engages and further to qualify for certain exemptions that will relieve WPD from the mandatory clearing obligations imposed by the EMIR. Although the EMIR will potentially impose significant additional recordkeeping requirements on WPD, the effect of the EMIR is not currently expected to have a significant adverse impact on WPD's financial condition or results of operation.

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. For reporting purposes, on a consolidated basis, the credit facilities of PPL Energy Supply, PPL Electric, LG&E and KU also apply to PPL and the credit facilities of LG&E and KU also apply to LKE. The following credit facilities were in place at:

	September 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							
<i>WPD Credit Facilities</i>							
PPL WW Syndicated Credit Facility (b)	Jan. 2013	£ 150	£ 107	n/a	£ 43	£ 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	£ 107	£ 4	£ 968	£ 111	£ 144
PPL Energy Supply							
Syndicated Credit Facility (e)	Oct. 2016	\$ 3,000		\$ 468	\$ 2,532		\$ 541
Letter of Credit Facility	Mar. 2013	200	n/a	126	74	n/a	89
Uncommitted Credit Facilities (f)		175	n/a	32	143	n/a	n/a
Total PPL Energy Supply Credit Facilities		\$ 3,375		\$ 626	\$ 2,749		\$ 630
PPL Electric							
Syndicated Credit Facility (e) (g)	Oct. 2016	\$ 300		\$ 1	\$ 299		\$ 1
Asset-backed Credit Facility (h)	Sept. 2013	100		n/a	100		n/a
Total PPL Electric Credit Facilities		\$ 400		\$ 1	\$ 399		\$ 1
LG&E							
Syndicated Credit Facility (e)	Oct. 2016	\$ 400			\$ 400		
KU							
Syndicated Credit Facility (e)	Oct. 2016	\$ 400			\$ 400		
Letter of Credit Facility (i)	Apr. 2014	198		\$ 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 amount outstanding at September 30, 2012 was a USD-denominated borrowing of \$171 million, which equated to £107 million at the time of borrowing and bore interest at 0.8818%.

(c) In January 2012, WPD (South West) entered into a £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 September 30, 2012, the U.S. dollar equivalent of unused capacity under WPD's credit facilities was \$1.5 billion.

(e) In November 2012, the syndicated credit facilities were amended to extend the expiration dates to November 2017 for PPL Energy Supply, LG&E and KU and to October 2017 for PPL Electric. In addition, LG&E increased the credit facility capacity to \$500 million.

- (f) In July 2012, PPL Energy Supply entered into two uncommitted letter of credit facilities with available capacity of \$75 million and \$100 million, respectively, which expire in July 2014 and July 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.
- (g) In April 2012, PPL Electric increased the capacity of its syndicated credit facility from \$200 million.
- (h) PPL Electric participates in an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary has pledged these assets to secure loans from a commercial paper conduit sponsored by a financial institution.

At September 30, 2012 and December 31, 2011, \$240 million and \$251 million of accounts receivable and \$80 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 September 30, 2012, the amount available for borrowing under the facility was \$100 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 reduced the capacity from \$150 million and in September 2012 extended the agreement to September 2013.

- (i) In August 2012, the KU letter of credit facility agreement was amended and restated to allow for certain payments under the letter of credit facility to be converted to loans rather than requiring immediate payment.

(PPL and PPL Energy Supply)

PPL Energy Supply maintains a \$500 million Facility Agreement expiring June 2017, whereby PPL Energy Supply has the ability to request up to \$500 million of committed letter of credit capacity at fees to be agreed upon at the time of each request, based on certain market conditions. At September 30, 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 September 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 September 30, 2012, PPL Energy Supply had \$355 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of 0.48%.

(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. PPL Electric had no commercial paper outstanding at September 30, 2012.

(PPL, LKE, LG&E and KU)

In February 2012, LG&E and KU each established a commercial paper program for up to \$250 million to provide an additional financing source to fund their short-term liquidity needs, if and when necessary. 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 September 30, 2012.

(PPL Energy Supply, PPL Electric, 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 591 thousand additional 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 over-allotment 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 are 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 4 for information on the forward sale agreements impact on the calculation of diluted EPS.

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 £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, which were used for general corporate purposes.

In August 2012, PPL Capital Funding redeemed at par, plus accrued interest, the \$99 million outstanding principal amount of its 6.85% Senior Notes due 2047.

In October 2012, PPL Capital Funding issued \$400 million of 3.50% 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 \$397 million, net of a discount and underwriting fees, which will be used to repay short-term debt obligations, including commercial paper borrowings, and for general corporate purposes.

See Note 7 in PPL's 2011 Form 10-K for information on the 2010 Equity Units (with respect to which the related \$1.150 billion of Notes are expected to be remarketed in 2013), the 2011 Bridge Facility, the 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 long-term 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.

In August 2012, PPL Electric issued \$250 million of 2.50% First Mortgage Bonds due 2022. The notes may be redeemed at PPL Electric's option any time prior to maturity at make-whole redemption prices. PPL Electric received proceeds of \$247 million, net of a discount and underwriting fees. The net proceeds were used to repay short-term indebtedness incurred to fund PPL Electric's redemption of its 6.25% Series Preference Stock in June 2012 and for other general corporate purposes.

(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 August 2012, PPL declared its quarterly common stock dividend, payable October 1, 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 nine months ended September 30, 2012, the following distributions and capital contributions occurred:

	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Dividends/distributions paid to parent/member	\$ 733	\$ 75	\$ 95	\$ 47	\$ 68
Capital contributions received from parent/member	472	150			

(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 of all of the equity interests of two subsidiaries of The AES Corporation, 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 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 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 working capital adjustments)	\$	<u>85</u>

- (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)	\$	<u>85</u>

- (a) Represents non-cash activity excluded from the Statement of Cash Flows for the nine months ended September 30, 2012.
- (b) 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. For the three and nine months ended September 30, 2011, \$84 million of separation benefits were recorded, of which \$41 million related to severance compensation and \$43 million related to Early Retirement Deficiency Costs (ERDC). The accrued severance compensation is reflected in "Other current liabilities" and the ERDC reduced "Other noncurrent assets" on the Balance Sheets. Severance compensation of \$7 million and ERDC of \$2 million also were recorded in the fourth quarter of 2011. All separation benefits are included in "Other operation and maintenance" on the Statements of Income.

These amounts do not include \$3 million and \$9 million recorded in the three and nine months ended September 30, 2011 for separation benefits related to certain employees who separated from the WPD Midlands companies, but were not part of the reorganization.

Additional severance compensation was recorded during the three and nine months ended September 30, 2012, as shown in the table below.

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

	<u>Three Months</u>	<u>Nine Months</u>
Accrued severance at the beginning of period	\$ 8	\$ 21
Severance compensation	2	12
Severance paid	(2)	(25)
Accrued severance at the end of period	<u>\$ 8</u>	<u>\$ 8</u>

Pro forma Information

The pro forma financial information for the nine months ended September 30, 2011, which includes WPD Midlands as if the acquisition had occurred January 1, 2010, is as follows.

Operating Revenues - PPL consolidated pro forma	\$ 8,922
Net Income Attributable to PPL Shareowners - PPL consolidated pro forma	1,322

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 financial information presented above includes adjustments to depreciation, net periodic pension costs, interest expense and the related income tax effects to reflect the impact of the acquisition. The pre-tax nonrecurring credits (expenses) for the nine months ended September 30, 2011 presented in the following table were directly attributable to the WPD Midlands acquisition and adjustments were included in the calculation of pro forma operating revenue and net income to remove the effect of these nonrecurring items and the related income tax effects.

	Income Statement Line Item	Nine Months
2011 Bridge Facility costs (a)	Interest Expense	\$ (43)
Foreign currency loss on 2011 Bridge Facility (b)	Other Income (Expense) - net	(57)
Net hedge gains associated with the 2011 Bridge Facility (c)	Other Income (Expense) - net	55
Hedge ineffectiveness (d)	Interest Expense	(12)
U.K. stamp duty tax (e)	Other Income (Expense) - net	(21)
Separation benefits (f)	Other operation and maintenance	(92)
Other acquisition-related adjustments (g)	Other Income (Expense) - net	(45)

- (a) The 2011 Bridge Facility costs, primarily commitment and structuring fees, were incurred to establish a bridge facility for purposes of funding the WPD Midlands acquisition purchase price.
- (b) The 2011 Bridge Facility was denominated in GBP. The amount includes a \$42 million foreign currency loss on PPL Capital Funding's repayment of its 2011 Bridge Facility borrowing and a \$15 million foreign currency loss 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.
- (c) The repayment of borrowings on the 2011 Bridge Facility was economically hedged to mitigate the effects of changes in foreign currency exchange rates with forward contracts to purchase GBP, which resulted in net hedge gains.
- (d) The hedge ineffectiveness includes 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, both associated with the acquisition financing.
- (e) The U.K. stamp duty tax represents a tax on the transfer of ownership of property in the U.K. incurred in connection with the acquisition.
- (f) See "Separation Benefits - U.K. Regulated Segment" above.
- (g) Primarily includes acquisition-related advisory, accounting and legal fees.

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 asset purchase agreement 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. LG&E will own a 22% undivided interest, and KU will own a 78% undivided interest in the new NGCC. LG&E and KU commenced preliminary construction activities in the third quarter of 2012 and project construction is expected to be completed by May 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, more stringent 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. See Note 6 for additional information.

Bell Bend COLA (PPL and PPL Energy Supply)

The NRC continues to review the COLA submitted by a PPL Energy Supply subsidiary, PPL Bell Bend, LLC (PPL Bell Bend) for the proposed Bell Bend nuclear generating unit (Bell Bend) to be built adjacent to the Susquehanna plant. PPL Bell Bend has made no decision to proceed with construction of Bell Bend and expects that such decision will not be made for several years given the anticipated lengthy NRC license approval process. Additionally, PPL Bell Bend has announced that it does not expect to proceed with construction absent favorable economics, a joint arrangement with other interested parties and a federal loan guarantee or other acceptable financing. PPL Bell Bend is currently authorized to spend up to \$162 million through 2012 on the COLA and other permitting costs (including land costs) necessary for construction. At September 30, 2012 and December 31, 2011, \$148 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)

On October 1, 2012, the National Park Service (NPS) issued its Record of Decision (ROD) on the proposed Susquehanna-Roseland transmission line affirming the route chosen by PPL Electric and Public Service Electric & Gas as the preferred alternative under the NPS's National Environmental Policy Act review. On October 15, 2012, a complaint was filed in the United States District Court for the District of Columbia by various environmental groups, including the Sierra Club, challenging the ROD and seeking to prohibit its implementation. Construction activities have begun on portions of the 101-mile route in Pennsylvania. The line is expected to be in service before the peak summer demand period of 2015. The chosen route had previously been approved by the PUC and New Jersey Board of Public Utilities. An appeal of the New Jersey Board of Public Utilities approval is pending before the New Jersey Superior Court Appellate Division. PPL Electric cannot predict the ultimate outcome or timing of any further legal challenges to the project. PJM has developed a strategy to manage potential reliability problems until the line is built. PPL and 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 September 30, 2012, PPL Electric's estimated share of the project cost was \$560 million, an increase from approximately \$500 million at December 31, 2011, due primarily to increased material costs.

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.

(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 September 30:

	Pension Benefits							
	Three Months				Nine Months			
	U.S.		U.K.		U.S.		U.K.	
	2012	2011	2012	2011	2012	2011	2012	2011
PPL								
Service cost	\$ 25	\$ 24	\$ 13	\$ 14	\$ 77	\$ 71	\$ 40	\$ 31
Interest cost	55	54	85	88	165	163	254	200
Expected return on plan assets	(65)	(61)	(115)	(103)	(195)	(184)	(340)	(243)
Amortization of:								
Prior service cost	6	6	1	1	18	18	3	3
Actuarial (gain) loss	11	7	19	15	32	21	59	44
Net periodic defined benefit costs (credits) prior to termination benefits	32	30	3	15	97	89	16	35
Termination benefits (a)				45				47
Net periodic defined benefit costs (credits)	<u>\$ 32</u>	<u>\$ 30</u>	<u>\$ 3</u>	<u>\$ 60</u>	<u>\$ 97</u>	<u>\$ 89</u>	<u>\$ 16</u>	<u>\$ 82</u>

(a) In 2011, WPD Midlands recorded early retirement deficiency costs payable under applicable pension plans related to employees leaving the WPD Midlands companies. See Note 8 for additional information.

	Pension Benefits			
	Three Months		Nine Months	
	2012	2011	2012	2011
PPL Energy Supply				
Service cost	\$ 1	\$ 1	\$ 4	\$ 3
Interest cost	2	1	6	5
Expected return on plan assets	(2)	(2)	(7)	(6)
Amortization of:				
Actuarial (gain) loss	1	1	2	2
Net periodic defined benefit costs (credits)	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ 5</u>	<u>\$ 4</u>

LKE				
Service cost	\$ 5	\$ 6	\$ 16	\$ 18
Interest cost	16	16	48	50
Expected return on plan assets	(17)	(16)	(52)	(48)
Amortization of:				
Prior service cost	2	2	4	4
Actuarial (gain) loss	5	6	16	17
Net periodic defined benefit costs (credits)	<u>\$ 11</u>	<u>\$ 14</u>	<u>\$ 32</u>	<u>\$ 41</u>

LG&E				
Service cost			\$ 1	\$ 1
Interest cost	\$ 4	\$ 4	11	11
Expected return on plan assets	(5)	(4)	(14)	(13)
Amortization of:				
Prior service cost	1		2	1
Actuarial (gain) loss	3	3	8	9
Net periodic defined benefit costs (credits)	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ 8</u>	<u>\$ 9</u>

	Other Postretirement Benefits			
	Three Months		Nine Months	
	2012	2011	2012	2011

PPL				
Service cost	\$ 3	\$ 3	\$ 9	\$ 9
Interest cost	7	9	23	25
Expected return on plan assets	(6)	(6)	(17)	(17)
Amortization of:				
Transition obligation			1	1
Prior service cost	1		1	
Actuarial (gain) loss	1	1	3	4
Net periodic defined benefit costs (credits)	<u>\$ 6</u>	<u>\$ 7</u>	<u>\$ 20</u>	<u>\$ 22</u>

LKE				
Service cost	\$ 1	\$ 1	\$ 3	\$ 3
Interest cost	3	3	7	8
Expected return on plan assets	(1)	(1)	(3)	(3)
Amortization of:				
Transition obligation			1	1
Prior service cost		1	2	2
Actuarial (gain) loss			(1)	
Net periodic defined benefit costs (credits)	<u>\$ 3</u>	<u>\$ 4</u>	<u>\$ 9</u>	<u>\$ 11</u>

(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 September 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		Nine Months	
	2012	2011	2012	2011
PPL Energy Supply	\$ 10	\$ 8	\$ 29	\$ 23
PPL Electric	8	6	23	18
LG&E	3	5	9	13
KU	4	6	13	17

Expected Cash Flows - U.K. Pension Plans

(PPL)

At September 30, 2012, WPD's expected pension contributions for 2012 are \$344 million compared with \$161 million as disclosed in PPL's 2011 Form 10-K. During the nine months ended September 30, 2012, contributions of \$302 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)

PPL Energy Supply enters into long-term purchase contracts to supply the coal requirements for its coal-fired generating facilities. These contracts include commitments to purchase coal through 2019. As a result of lower electricity and natural gas prices, coal unit utilization has decreased. To mitigate the risk of exceeding available coal storage, PPL Energy Supply incurred pre-tax charges of \$17 million and \$29 million during the three and nine months ended September 30, 2012 to reduce its 2012 and 2013 contracted coal deliveries. These charges were recorded to "Fuel" on the Statement of Income.

(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 13 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 procure this electricity twice a year, beginning in April 2013.

(PPL Energy Supply and PPL Electric)

See Note 11 for information on the power supply agreements between PPL EnergyPlus and PPL Electric.

Legal Matters

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

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

TC2 Construction *(PPL, LKE, LG&E and KU)*

In June 2006, LG&E and KU, as well as the Indiana Municipal Power Agency and Illinois Municipal Electric Agency (collectively, TC2 Owners), entered into a construction contract regarding the TC2 project. The contract is generally in the form of a turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may 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 or other systems 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 period liquidated damages amounts. The remaining issues and disputes, including the nature and status of modifications to the combustion and other systems, 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 (m) 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 would 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 \$21 million at September 30, 2012, which has been fully reserved.

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. No assurance can be given as to the collectability of the claim.

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). An Amended Notice was received on September 4, 2012, and a Second Amended Notice was received on October 1, 2012. The Notice, Amended Notice and Second Amended Notice were all 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, NorthWestern Energy and PacifiCorp. The Notice alleges certain violations of the Clean Air Act, including New Source Review, Title V and opacity requirements. The Amended Notice alleges additional opacity violations at Colstrip, and the Second Amended Notice alleges additional Title V violations. All three notices state 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. Under the Clean Air Act, lawsuits cannot be filed until 60 days after the applicable notice date. PPL is evaluating the allegations set forth in the Notice, Amended Notice and Second Amended 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 beginning on the October 12, 2012 effective date of the definitional rule for the term "swap". In particular, the CFTC's Final Rule (Final Rule), defining key terms such as "swap dealer" and "major swap participant", took effect with the effectiveness of the swap definitional rule. The heightened thresholds and requirements for these entity classifications set forth in the Final Rule resulted in the Registrants currently being designated neither swap dealers nor major swap participants. The Dodd-Frank Act and its implementing regulations, however, will impose on the Registrants significant additional and costly recordkeeping and reporting requirements. Also, the Registrants could face significantly higher operating costs or may be required to post additional collateral if they or their counterparties are subject to capital or 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 full 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.

(PPL, PPL Energy Supply and PPL Electric)

New Jersey Capacity Legislation

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 the generation that 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. In September 2012, the court denied all summary judgment motions, and the litigation is continuing. Trial has been scheduled for January 17, 2013. 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 outstanding at September 30, 2012 of approximately \$50 million.

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 RFC or SERC 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.

On October 18, 2012, the FERC issued a Notice of Proposed Rulemaking (NOPR) concerning Reliability Standards for Geomagnetic Disturbances. The FERC proposes to direct NERC to submit for approval Reliability Standards that address the impact of geomagnetic disturbances on the reliable operation of the bulk-power system. The FERC proposes to direct NERC to file one or more Reliability Standards that include measures to protect against damage to the bulk-power system, such as the installation of equipment that blocks geomagnetically induced currents on implicated transformers. If the NOPR is adopted by the FERC, it is expected to require the Registrants to make significant expenditures in new equipment and/or modifications to their facilities. The Registrants are unable to predict whether the NOPR will be adopted as proposed by the FERC or the amount of any expenditures that may be required as a result of the adoption of any Reliability Standards for geomagnetic disturbances.

Settled Litigation (*PPL and PPL Energy Supply*)

Spent Nuclear Fuel Litigation

In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna plant. PPL Susquehanna recorded credits totaling \$56 million to "Fuel" on the Statement of Income during the nine months ended September 30, 2011 to recognize recovery, under the settlement agreement, of certain costs to store spent nuclear fuel at the Susquehanna plant. The amounts recorded through September 2011 cover costs incurred from 1998 through December 2010.

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.

LG&E and KU are entitled to recover, through the ECR mechanism, the cost of complying with the Federal Clean Air Act as amended and those federal, state, or local environmental requirements which apply to coal combustion wastes and by-products from facilities utilized for production of energy from coal in accordance with their approved compliance plans. Costs not covered by the ECR for LG&E and KU and all such costs for PPL Electric are subject to rate recovery before their respective state regulatory authorities, or the FERC, if applicable. Because PPL Electric does not own any generating plants, its exposure to environmental compliance costs is reduced. As PPL Energy Supply is not a rate regulated entity, it does not have any mechanism for seeking rate recovery of environmental compliance costs. PPL, PPL Electric, LKE, LG&E and KU can provide no assurances as to the ultimate outcome of future environmental or rate proceedings before regulatory authorities.

(*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, CSAPR only applied to PPL's fossil-fueled generating plants located in Kentucky and Pennsylvania.

The CSAPR was meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxides. The CSAPR established new sulfur dioxide and nitrogen oxide emission allowance cap-and-trade programs that were more restrictive than previously under CAIR. The CSAPR provided 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 August 2012 the Court issued a ruling invalidating CSAPR, remanding the rule to the EPA for further action, and leaving CAIR in place during the interim. That ruling will not become effective until the Court rules on a pending motion for rehearing. A further revised rule is not expected from the EPA for at least two years.

The Kentucky fossil-fueled generating plants can meet the CAIR sulfur dioxide emission requirements by utilizing sulfur dioxide allowances (including banked allowances). To meet nitrogen oxide standards, under the CAIR, the Kentucky companies will need to buy allowances and/or make operational changes. LG&E and KU do not currently anticipate the costs of meeting these reinstated CAIR requirements or standards to be significant.

PPL Energy Supply's fossil-fueled generating plants can meet the CAIR sulfur dioxide emission requirements with the existing scrubbers that were placed in service in 2008 and 2009. To meet nitrogen oxide standards, under the CAIR, PPL Energy Supply will need to buy allowances and/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 CAIR 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. States would have until 2014 to identify initial non-attainment areas 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 particulate matter (PM) rule is finalized and the sulfur dioxide maintenance and compliance plans are developed, 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, the Mercury and Air Toxic Standards (MATS), or the Regional Haze requirements, such as upgraded or new sulfur dioxide scrubbers at some of their plants and, in the case of LG&E and KU, the previously announced retirement of coal-fired generating units at the Cane Run, Green River, and Tyrone plants, will help achieve compliance with the new one-hour sulfur dioxide standard. If additional reductions were to be required, the financial 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 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 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 Energy Supply believes that certain coal-fired plants may require installation of chemical additive systems, the cost of which is not expected to be significant. With respect to PPL Energy Supply's 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, PPL Energy Supply announced in September 2012 its intention, beginning in April 2015, to place the plant in long-term reserve status, suspending the plant's operation, due to expected market conditions and the costs to comply with the MATS requirements. The Corette plant's carrying value at September 30, 2012 was approximately \$67 million. Although the Corette plant was not determined to be impaired at September 30, 2012, it is reasonably possible that an impairment charge could be recorded in the fourth quarter of 2012 or in future periods, as higher priced sales contracts settle, adversely impacting projected cash flows. PPL Energy Supply, LG&E and KU are continuing to conduct in-depth reviews of the MATS, including the potential implications to scrubber wastewater discharges. See the discussion of effluent limitations guidelines and standards below.

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

Best Available Retrofit Technology (BART) 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, in August 2012, the U.S. Court of Appeals for the District of Columbia Circuit (Court) vacated and remanded the CSAPR back to the EPA for further rulemaking. In September 2012, several environmental groups filed a petition for review with the Court challenging the EPA's approval of the Pennsylvania SIP. At this time, it is not known whether the EPA will reinstate its previous determination that CAIR satisfies the BART requirement or will require states to conduct source-specific BART studies.

In Montana, the EPA Region 8 developed 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 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 analyses of various air emission control options under the rules to reduce air emissions related to the non-BART-affected emission sources of Colstrip Units 3 and 4. The analyses show that any incremental reductions would not be cost-effective and that further analysis is not warranted.

In March and September 2012, the EPA issued its draft and final Federal Implementation Plans (FIP) for the Montana regional haze rule. The final FIP indicated that no additional controls were required for Corette or Colstrip Units 3 and 4 but proposed tighter limits for Corette and Colstrip Units 1 and 2. PPL Energy Supply expects to meet these tighter permit limits at Corette without any significant changes to operations, although other requirements have led to the planned suspension of operations at Corette beginning in April 2015. See "Mercury and Other Hazardous Air Pollutants" discussion above. Under the final FIP, Colstrip Units 1 and 2 will require additional controls, including the possible installation of an SNCR and spare scrubber vessel, to meet more stringent nitrogen oxide and sulfur dioxide limits. The cost of these potential additional controls, if required, could be significant. PPL Energy Supply plans to challenge this FIP.

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, the costs of which are not expected to be significant. After approval of the Kentucky SIP by the EPA and revision of the Mill Creek plant's air permit under Title V, 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 in the early 2000s 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 received information requests for the Mill Creek and Trimble County plants, and KU received requests for the Ghent plant, but they 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. In September 2012, the parties reached a tentative settlement addressing the Ghent NSR matter and a September 2007 notice of violation alleging opacity violations at the plant. The settlement is subject to various administrative and judicial approvals. PPL, LKE and KU cannot predict the outcome of this matter until a final consent decree is entered by the U.S. District Court for the Eastern District of Kentucky, but currently do not expect such outcome to result in material losses above the 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. See "Legal Matters" above for information on a notice of intent to sue received in July 2012 by PPL Montana and other owners of Colstrip. PPL, PPL Energy Supply, LKE, LG&E and KU are unable to predict whether such actions will be brought against any of their other plants.

TC2 Air Permit (PPL, LKE, LG&E and KU)

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the TC2 baseload generating unit, but the agency upheld the permit in an order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit which were incorporated into a final revised permit issued by the KDAQ in January 2010. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot 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 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 District of Columbia 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 by 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 not issued 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* (Comer case), the U.S. Court of Appeals for the Fifth Circuit (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 Fifth Circuit's 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 Mississippi federal court granted defendants' motions to dismiss the state common law claims because plaintiffs had previously raised the same claims, plaintiffs lacked standing, plaintiffs' claims were displaced by the Clean Air Act, and other grounds. In April 2012, plaintiffs filed a notice of appeal in 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. In the 112th Congress, the Clean Energy Standard Act of 2012 (S.2146) was introduced which would mandate electric utilities to supply 24% of their electricity sales from qualified resources by 2015, increasing 3% per year up to 84% by 2035. This legislation will not likely be addressed in the remaining days of this Congress. In Pennsylvania, bills were introduced in both the Senate and House amending the existing Alternative Energy Portfolio Standard to accelerate the current solar obligation, but no action was taken before the end of the 2011-2012 legislative session.

PPL and PPL Energy Supply believe there are financial, regulatory and logistical uncertainties related to GHG reductions and the implementation of renewable energy mandates that 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 over-supply 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 sources. 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 September 2012 approved a bill that was revised in the Senate 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. This revised bill is being considered 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 the EPA to issue strict CCR regulations. In February 2012, two CCR recycling companies also issued a 60-day notice of intent to sue the EPA over its timeliness in issuing CCR regulations, but they 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 and litigation is continuing.

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 financial impact could be material if regulated as a hazardous waste under Subtitle C and significant if regulated under Subtitle D.

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 September 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 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.

In August 2012, PPL Montana entered into an Administrative Order on Consent (AOC) with the Montana Department of Environmental Quality (MDEQ) which establishes a comprehensive process to investigate and remediate groundwater seepage impacts related to the wastewater facilities at the Colstrip power plant. The AOC requires that within five years, PPL Montana is to provide financial assurance to MDEQ for the costs associated with closure and future monitoring of the waste-water treatment facilities. PPL Montana cannot predict at this time if the actions required under the AOC will create the need to adjust the existing ARO related to these facilities.

In September 2012, Earthjustice filed an affidavit pursuant to Montana's Major Facility Siting Act (MFSA) that sought review of the AOC by Montana's Board of Environmental Review (BER), on behalf of environmental groups Sierra Club, the Montana Environmental Information Center (MEIC), and the National Wildlife Federation (NWF). In September 2012, PPL Montana filed an election with the BER to have this proceeding conducted in Montana state district court as contemplated by the MFSA. In October 2012, Earthjustice filed a petition for review of the AOC in the Montana state district court in Rosebud County.

In late October 2012, Earthjustice filed a second complaint against MDEQ and PPL Montana in state district court in Lewis and Clark County on behalf of Sierra Club, MEIC and NWF. This complaint alleges that the defendants have failed to take action under the MFSA and the Montana Water Quality Act to effectively monitor and correct issues of coal ash disposal and wastewater ponds at the Colstrip plant. The complaint seeks a declaration that the operations of the impoundments violate the statutes addressed above, requests a writ of mandamus directing MDEQ to enforce the same, and seeks recovery of attorneys' fees and costs. PPL and PPL Energy Supply cannot predict the outcome of this matter.

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 on new or modified cooling water intake structures 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. Under the Clean Water Act, permits are subject to renewal every five years. 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. PCBs are found, in varying degrees, in all of the Registrants' operations. The Registrants 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, the cost of which could be significant.

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 more stringent 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 September 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 September 30, 2012. The total recorded liability at September 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." For reporting purposes, on a consolidated basis, all guarantees of PPL Energy Supply (other than the letters of credit), PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	<u>Exposure at September 30, 2012 (a)</u>	<u>Expiration Date</u>
<u>PPL</u>		
Indemnifications related to the WPD Midlands acquisition	(b)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 298 (c)	2014 - 2018
WPD guarantee of pension and other obligations of unconsolidated entities	91 (d)	2015
Tax indemnification related to unconsolidated WPD affiliates	(e)	
<u>PPL Energy Supply</u>		
Letters of credit issued on behalf of affiliates	21 (f)	2012 - 2014
Retrospective premiums under nuclear insurance programs	48 (g)	
Nuclear claims assessment under The Price-Anderson Act Amendments under The Energy Policy Act of 2005	235 (h)	
Indemnifications for sales of assets	262 (i)	2012 - 2025
Indemnification to operators of jointly owned facilities	6 (j)	
Guarantee of a portion of a divested unconsolidated entity's debt	22 (k)	2018
<u>PPL Electric</u>		
Guarantee of inventory value	22 (l)	2016
<u>LKE</u>		
Indemnification of lease termination and other divestitures	301 (m)	2021 - 2023
<u>LG&E and KU</u>		
LG&E and KU guarantee of shortfall related to OVEC	(n)	

(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 September 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) 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.
- (g) 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.
- (h) 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.
- (i) 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.

- (j) 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.
- (k) 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.
- (l) 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.
- (m) 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 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's indemnitee 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 and will present oral arguments in November 2012. 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. In the second quarter of 2012, LKE adjusted its estimated liability for certain of these indemnifications by \$9 million (\$5 million after-tax), 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.
- (n) Pursuant to the OVEC power purchase contract, expiring in June 2040, LG&E and KU are obligated to pay a demand charge which includes, among other charges, debt service and amortization toward principal retirement, decommissioning costs, post-retirement and post-employment benefits costs (other than pensions), and reimbursement of plant operating, maintenance and other expenses. The demand charge is expected to cover LG&E's and KU's shares of the cost of the listed 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 debt service, post-retirement and post-employment and decommissioning costs. 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 \$22 million and \$60 million for the three and nine months ended September 30, 2012 and \$5 million and \$15 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 September 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 September 30, 2012, PPL Energy Supply had a net credit exposure of \$39 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 September 30, which PPL management believes are reasonable, including amounts applied to accounts that are further distributed between capital and expense:

	Three Months		Nine Months	
	2012	2011	2012	2011
PPL Energy Supply	\$ 49	\$ 44	\$ 159	\$ 138
PPL Electric	35	34	116	108
LKE	3	3	11	12

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 September 30, which LKE management believes are reasonable, including amounts that are further distributed between capital and expense:

	Three Months		Nine Months	
	2012	2011	2012	2011
LG&E	\$ 51	\$ 51	\$ 132	\$ 134
KU	33	44	114	148

Intercompany Borrowings

(PPL Energy Supply)

A PPL Energy Supply subsidiary periodically holds revolving demand notes from certain affiliates. At September 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 "Notes receivable from affiliates" 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 not significant for the three and nine months ended September 30, 2012 and the three months ended September 30, 2011. For the nine months ended September 30, 2011, interest earned on the borrowings was \$6 million, substantially all of which was attributable to borrowings by PPL Energy Funding.

(PPL Electric)

A PPL Electric subsidiary periodically holds revolving demand notes from certain affiliates. At September 30, 2012, there was a \$210 million balance outstanding and no balance was outstanding at December 31, 2011. The note is reflected in "Notes receivable from affiliates" on the Balance Sheet. The interest rate on borrowings is equal to one-month LIBOR plus a spread. The interest rate on the outstanding borrowings at September 30, 2012 was 1.98%. For the three and nine months ended September 30, 2012 and 2011, the interest earned on these revolving facilities was not significant.

(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 September 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 nine months ended September 30, 2012 and 2011.

LKE holds 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 September 30, 2012 and December 31, 2011, \$6 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 September 30, 2012 and December 31, 2011 were 2.23% and 2.27%. Interest income on the note receivable was not significant for the three and nine months ended September 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 September 30, 2012 and December 31, 2011, there was no balance outstanding. Interest expense and interest income on the money pool agreement with LKE and/or KU was not significant for the three and nine months ended September 30, 2012 and 2011.

(KU)

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to \$500 million at an interest rate based on a market index of commercial paper issues. At September 30, 2012 and December 31, 2011, there was no balance outstanding. Interest expense and interest income on the money pool agreement with LKE and/or LG&E was not significant for the three and nine months ended September 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 \$30 million of license fees for the three and nine months ended September 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 2011, PPL Electric exceeded its deductible for the 2011 policy year. Probable recoveries on insurance claims with PPL Power Insurance of \$26.5 million were recorded at September 30, 2011, of which \$7 million and \$16 million were recorded during the three and nine months ended September 30, 2011 in "Other operation and maintenance" on the Statement of Income, with the remainder recorded in PP&E on the Balance Sheet. In September 2012, PPL Electric received \$26.5 million from the settlement of its 2011 claims.

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 September 30 was:

	Three Months		Nine Months	
	2012	2011	2012	2011
PPL				
Other Income				
Gain on redemption of debt (a)		\$ 22		\$ 22
Earnings on securities in NDT funds	\$ 5	2	\$ 17	20
Interest income	1	1	4	5
AFUDC - equity component	2	2	7	5
Net hedge gains associated with the 2011 Bridge Facility (b)				55
Earnings (losses) from equity method investments	(1)	1	(7)	1
Miscellaneous - Domestic	3	2	8	9
Miscellaneous - U.K.	(1)		1	1
Total Other Income	9	30	30	118
Other Expense				
Economic foreign currency exchange contracts (Note 14)	47	(11)	40	(11)
Charitable contributions	1	2	7	7
WPD Midlands acquisition-related costs (Note 8)				36
Foreign currency loss on 2011 Bridge Facility (c)				57
U.K. stamp duty tax (Note 8)				21
Miscellaneous - Domestic	4	2	12	7
Miscellaneous - U.K.	1		2	3
Total Other Expense	53	(7)	61	120
Other Income (Expense) - net	\$ (44)	\$ 37	\$ (31)	\$ (2)

	Three Months		Nine Months	
	2012	2011	2012	2011
PPL Energy Supply				
Other Income				
Earnings on securities in NDT funds	\$ 5	\$ 2	\$ 17	\$ 20
Interest income		1	1	1
Miscellaneous	1		3	5
Total Other Income	6	3	21	26
Other Expense				
Charitable contributions	1	1	2	2
Miscellaneous	1		5	4
Total Other Expense	2	1	7	6
Other Income (Expense) - net	\$ 4	\$ 2	\$ 14	\$ 20

- (a) In July 2011, as a result of PPL Electric's redemption of 7.125% Senior Secured Bonds due 2013, PPL recorded a gain on the accelerated amortization of the fair value adjustment to the debt recorded in connection with previously settled fair value hedges.
- (b) Represents a gain on foreign currency contracts that hedged the repayment of the 2011 Bridge Facility borrowing.
- (c) Represents a foreign currency loss related to the repayment of the 2011 Bridge Facility borrowing.

"Other Income (Expense) - net" for the three and nine months ended September 30, 2012 and 2011 for PPL Electric is primarily the equity component of AFUDC. "Other Income (Expense) - net" for the nine months ended September 30, 2012 for LKE and KU is primarily losses from an equity method investment. The components of "Other Income (Expense) - net" for the three months ended September 30, 2012 and 2011 and for the nine months ended September 30, 2011 for LKE and KU are not significant. The components of "Other Income (Expense) - net" for the three and nine months ended September 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 nine months ended September 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:

	September 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	\$ 946	\$ 946			\$ 1,202	\$ 1,202		
Restricted cash and cash equivalents (a)	169	169			209	209		
Price risk management assets:								
Energy commodities	2,604	5	\$ 2,569	\$ 30	3,423	3	\$ 3,390	\$ 30
Interest rate swaps					3		3	
Foreign currency contracts					18		18	
Cross-currency swaps	24		22	2	24		20	4
Total price risk management assets	2,628	5	2,591	32	3,468	3	3,431	34

	September 30, 2012				December 31, 2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
NDT funds:								
Cash and cash equivalents	12	12			12	12		
Equity securities								
U.S. large-cap	412	307	105		357	267	90	
U.S. mid/small-cap	59	25	34		52	22	30	
Debt securities								
U.S. Treasury	95	95			86	86		
U.S. government sponsored agency	9		9		10		10	
Municipality	83		83		83		83	
Investment-grade corporate	40		40		38		38	
Other	2		2		2		2	
Receivables (payables), net	(1)	(3)	2			(3)	3	
Total NDT funds	711	436	275		640	384	256	
Auction rate securities (b)	19		3	16	24			24
Total assets	\$ 4,473	\$ 1,556	\$ 2,869	\$ 48	\$ 5,543	\$ 1,798	\$ 3,687	\$ 58

Liabilities								
Price risk management liabilities:								
Energy commodities	\$ 1,947	\$ 5	\$ 1,937	\$ 5	\$ 2,345	\$ 1	\$ 2,327	\$ 17
Interest rate swaps	83		83		63		63	
Foreign currency contracts	36		36					
Cross-currency swaps	2		2		2		2	
Total price risk management liabilities	\$ 2,068	\$ 5	\$ 2,058	\$ 5	\$ 2,410	\$ 1	\$ 2,392	\$ 17

PPL Energy Supply

Assets								
Cash and cash equivalents	\$ 432	\$ 432			\$ 379	\$ 379		
Restricted cash and cash equivalents (a)	98	98			145	145		
Price risk management assets:								
Energy commodities	2,604	5	\$ 2,569	\$ 30	3,423	3	\$ 3,390	\$ 30
Total price risk management assets	2,604	5	2,569	30	3,423	3	3,390	30
NDT funds:								
Cash and cash equivalents	12	12			12	12		
Equity securities								
U.S. large-cap	412	307	105		357	267	90	
U.S. mid/small-cap	59	25	34		52	22	30	
Debt securities								
U.S. Treasury	95	95			86	86		
U.S. government sponsored agency	9		9		10		10	
Municipality	83		83		83		83	
Investment-grade corporate	40		40		38		38	
Other	2		2		2		2	
Receivables (payables), net	(1)	(3)	2			(3)	3	
Total NDT funds	711	436	275		640	384	256	
Auction rate securities (b)	16		3	13	19			19
Total assets	\$ 3,861	\$ 971	\$ 2,847	\$ 43	\$ 4,606	\$ 911	\$ 3,646	\$ 49
Liabilities								
Price risk management liabilities:								
Energy commodities	\$ 1,947	\$ 5	\$ 1,937	\$ 5	\$ 2,345	\$ 1	\$ 2,327	\$ 17
Total price risk management liabilities	\$ 1,947	\$ 5	\$ 1,937	\$ 5	\$ 2,345	\$ 1	\$ 2,327	\$ 17

PPL Electric

Assets								
Cash and cash equivalents	\$ 31	\$ 31			\$ 320	\$ 320		
Restricted cash and cash equivalents (c)	13	13			13	13		
Total assets	\$ 44	\$ 44			\$ 333	\$ 333		

LKE

Assets								
Cash and cash equivalents	\$ 90	\$ 90			\$ 59	\$ 59		
Restricted cash and cash equivalents (e)	32	32			29	29		
Total assets	\$ 122	\$ 122			\$ 88	\$ 88		
Liabilities								
Price risk management liabilities:								
Interest rate swaps (d)	\$ 62		\$ 62		\$ 60		\$ 60	
Total liabilities	\$ 62		\$ 62		\$ 60		\$ 60	

	September 30, 2012				December 31, 2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
LG&E								
Assets								
Cash and cash equivalents	\$ 48	\$ 48			\$ 25	\$ 25		
Restricted cash and cash equivalents (e)	32	32			29	29		
Total assets	\$ 80	\$ 80			\$ 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	\$ 42	\$ 42			\$ 31	\$ 31		
Total assets	\$ 42	\$ 42			\$ 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.
(e) Included in "Other noncurrent assets" on the Balance Sheets.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended September 30, 2012 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Three Months				Nine Months			
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total
PPL								
Balance at beginning of period	\$ 34	\$ 15	\$ 10	\$ 59	\$ 13	\$ 24	\$ 4	\$ 41
Total realized/unrealized gains (losses)								
Included in earnings	(17)			(17)	(1)		(1)	(2)
Included in OCI (a)		1	(8)	(7)	1		2	3
Sales						(5)		(5)
Settlements	2			2	(9)			(9)
Transfers into Level 3	(2)			(2)	12			12
Transfers out of Level 3	8			8	9	(3)	(3)	3
Balance at end of period	\$ 25	\$ 16	\$ 2	\$ 43	\$ 25	\$ 16	\$ 2	\$ 43

PPL Energy Supply

Balance at beginning of period	\$ 34	\$ 12	\$ 46	\$ 13	\$ 19	\$ 32
Total realized/unrealized gains (losses)						
Included in earnings	(17)		(17)	(1)		(1)
Included in OCI (a)		1	1	1		1
Sales					(3)	(3)
Settlements	2		2	(9)		(9)
Transfers into Level 3	(2)		(2)	12		12
Transfers out of Level 3	8		8	9	(3)	6
Balance at end of period	\$ 25	\$ 13	\$ 38	\$ 25	\$ 13	\$ 38

- (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 September 30, 2011 is as follows:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Three Months				Nine Months			
	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross- Currency Swaps	Total
PPL								
Balance at beginning of period	\$ 26	\$ 25		\$ 51	\$ (3)	\$ 25		\$ 22
Total realized/unrealized gains (losses)								
Included in earnings	6			6	2			2
Included in OCI (a)	2	(1)		1	6	(1)		5
Purchases					2			2
Sales					(4)			(4)
Settlements	(2)			(2)	23			23
Transfers into Level 3	(1)		\$ 14	13	(1)		\$ 14	13
Transfers out of Level 3	(5)			(5)	1			1
Balance at end of period	<u>\$ 26</u>	<u>\$ 24</u>	<u>\$ 14</u>	<u>\$ 64</u>	<u>\$ 26</u>	<u>\$ 24</u>	<u>\$ 14</u>	<u>\$ 64</u>

PPL Energy Supply

Balance at beginning of period	\$ 26	\$ 20		\$ 46	\$ (3)	\$ 20		\$ 17
Total realized/unrealized gains (losses)								
Included in earnings	6			6	2			2
Included in OCI (a)	2	(1)		1	6	(1)		5
Purchases					2			2
Sales					(4)			(4)
Settlements	(2)			(2)	23			23
Transfers into Level 3	(1)			(1)	(1)			(1)
Transfers out of Level 3	(5)			(5)	1			1
Balance at end of period	<u>\$ 26</u>	<u>\$ 19</u>		<u>\$ 45</u>	<u>\$ 26</u>	<u>\$ 19</u>		<u>\$ 45</u>

(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 September 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)	22	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	21% - 100% (88%)
FTRs (c)	3	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Auction rate securities (d)	16	Discounted cash flow	Modeled from SIFMA Index	53% - 75% (64%)
Cross-currency swaps (e)	2	Discounted cash flow	Credit valuation adjustment	25% - 78% (45%)
PPL Energy Supply				
Energy commodities				
Retail natural gas sales contracts (b)	22	Discounted cash flow	Observable wholesale prices used as proxy for retail delivery points	21% - 100% (88%)
FTRs (c)	3	Discounted cash flow	Historical settled prices used to model forward prices	100% (100%)
Auction rate securities (d)	13	Discounted cash flow	Modeled from SIFMA Index	58% - 75% (65%)

(a) For energy commodities and auction rate securities, the range and weighted average represent the percentage of fair value derived from the unobservable inputs. For cross-currency swaps, the range and weighted average represent the percentage decrease in fair value due to the unobservable inputs used in the model to calculate the credit valuation adjustment.

(b) Retail natural gas sales contracts extend through 2017. \$8 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) FTR purchase contracts extend through 2015. \$3 million of the fair value is scheduled to deliver within the next 12 months. As the forward implied spread increases/(decreases), the fair value of the contracts increases/(decreases).

- (d) Auction rate securities have a weighted average contractual maturity of 23 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).
- (e) 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 September 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	\$ (3)	\$ 6	\$ (4)	\$ (1)	\$ (8)	\$ 1	\$ (2)			
Change in unrealized gains (losses) relating to positions still held at the reporting date	(2)	3	(1)		2	1		\$ 1		
PPL Energy Supply										
Total gains (losses) included in earnings	\$ (3)	\$ 6	\$ (4)	\$ (1)	\$ (8)	\$ 1	\$ (2)			
Change in unrealized gains (losses) relating to positions still held at the reporting date	(2)	3	(1)		2	1		\$ 1		
	Nine 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	\$ 16	\$ 11	\$ (7)	\$ (5)	\$ (9)	\$ (2)	\$ (1)	\$ (2)	\$ (1)	
Change in unrealized gains (losses) relating to positions still held at the reporting date	29	6		(6)	2	1	1	20		
PPL Energy Supply										
Total gains (losses) included in earnings	\$ 16	\$ 11	\$ (7)	\$ (5)	\$ (9)	\$ (2)	\$ (1)	\$ (2)		
Change in unrealized gains (losses) relating to positions still held at the reporting date	29	6		(6)	2	1	1	20		

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 transactions 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 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 during 2012 and 2011 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 Total Market Index.
- Investments in commingled equity funds are classified as Level 2 and represent securities that track the S&P 500 index, Dow Jones U.S. Total Stock Market Index and the Dow Jones U.S. Completion Total Stock Market Index. These fair value measurements are based on firm quotes of net asset values per share, which are not obtained from a quoted price in an active market.

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

The debt securities held by the NDT funds at September 30, 2012 have a weighted-average coupon of 4.19% 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.

	September 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
PPL				
Contract adjustment payments (a)	\$ 128	\$ 116	\$ 198	\$ 198
Long-term debt (b)	19,024	21,091	17,993	19,392
PPL Energy Supply				
Long-term debt (b)	3,275	3,691	3,024	3,397
PPL Electric				
Long-term debt	1,967	2,252	1,718	2,012
LKE				
Long-term debt	4,074	4,385	4,073	4,306
LG&E				
Long-term debt	1,112	1,172	1,112	1,164
KU				
Long-term debt	1,842	2,021	1,842	2,000

(a) Reflected in "Other current liabilities" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

(b) Includes "Long-term Debt" and "Long-term debt due within one year" 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 September 30, 2012, PPL had credit exposure of \$2.1 billion from energy trading partners, excluding the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, PPL's credit exposure was reduced to \$657 million. The top ten counterparties accounted for \$345 million, or 52%, of the net exposure and all had investment grade credit ratings from S&P or Moody's.

(PPL Energy Supply)

At September 30, 2012, PPL Energy Supply had credit exposure of \$2.1 billion from energy trading partners, excluding exposure from related parties and the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, this credit exposure was reduced to \$656 million. The top ten counterparties accounted for \$345 million, or 53%, 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 September 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 September 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, 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.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
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, thus mitigating this risk for these entities.

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 \$160 million and \$147 million at September 30, 2012 and December 31, 2011.

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

PPL, LKE and LG&E had posted cash collateral under master netting arrangements of \$32 million and \$29 million at September 30, 2012 and December 31, 2011.

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

(PPL and PPL Energy Supply)

Commodity Price Risk (Non-trading)

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 September 30, 2012 range in maturity through 2016. At September 30, 2012, the accumulated net unrecognized after-tax gains (losses) that are expected to be reclassified into earnings during the next 12 months were \$199 million for PPL and PPL Energy Supply. Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedge transaction is probable of not occurring. For the three and nine months ended September 30, 2012 and 2011, such reclassifications were insignificant.

For the three and nine months ended September 30, 2012, hedge ineffectiveness associated with energy derivatives was insignificant. For the three and nine months ended September 30, 2011, hedge ineffectiveness associated with energy derivatives resulted in after-tax gains (losses) of \$(3) million and \$(17) million.

Certain cash flow hedge positions were dedesignated during the nine months ended September 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 \$40 million, representing the change in fair value of the remaining positions during the nine months ended September 30, 2012, were recorded in "Wholesale energy marketing unrealized economic activity" 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 September 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 both call and put options tied to a particular generating unit. Since the physical generating capacity is owned, price exposure is generally limited to the cost of the 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 nine months ended September 30, 2012 and 2011.

The net fair value of economic positions at September 30, 2012 and December 31, 2011 was a net asset (liability) of \$491 million and \$(63) million for PPL Energy Supply. The unrealized gains (losses) for economic activity for the periods ended September 30 were as follows.

	Three Months		Nine Months	
	2012	2011	2012	2011
PPL Energy Supply				
Operating Revenues				
Unregulated retail electric and gas	\$ (13)	\$ 4	\$ (15)	\$ 9
Wholesale energy marketing	(716)	216	(322)	229
Operating Expenses				
Fuel	3	(28)	(11)	(16)
Energy purchases	569	(176)	420	(49)

The net gains (losses) recorded in "Wholesale energy marketing" resulted primarily from hedges of baseload generation, from certain full-requirement sales contracts for which PPL Energy Supply did not elect NPNS, from hedge ineffectiveness and from 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.

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 (summer rating) 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. The following table presents the expected sales, in GWh, from competitive baseload generation and power purchase agreements that are included in the baseload portfolio based on current forecasted assumptions for 2012-2014.

2012 (a)	2013	2014
12,928	49,593	50,401

(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 September 30, 2012.

<u>Year</u>	<u>Derivative Sales (a)</u>	<u>Total Power Sales (b)</u>	<u>Fuel Purchases (c)</u>	
			<u>Coal</u>	<u>Nuclear</u>
2012 (d)	93%	100%	105%	100%
2013	88%	95%	97%	100%
2014 (e)	50%	55%	77%	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 2,710 GWh and 4.0 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 (bbls), of derivative (sales)/purchase contracts and contracts that qualify for NPNS used in support of these strategies at September 30, 2012.

	<u>2012 (a)</u>	<u>2013</u>	<u>2014</u>
Oil Swaps (b)	(20)	34	240

- (a) Represents the balance of the current year.
- (b) Net volumes that deliver in future periods are 480 bbls.

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 (summer rating) 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 September 30, 2012.

	<u>Units</u>	<u>2012 (a)</u>	<u>2013</u>
Net Power Sales (b)	GWh	(919)	(610)
Net Fuel Purchases (b) (c)	Bcf	11.8	5.9

- (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 September 30, 2012.

	Units	2012 (a)	2013	2014
Energy sales contracts (b)	GWh	(5,426)	(10,960)	(5,052)
Related energy supply contracts				
Energy purchases (b)	GWh	3,766	6,725	2,480
Volumetric hedges (c)	GWh	161	382	72
Generation supply (b)	GWh	840	2,986	1,857
Retail natural gas sales contracts	Bcf	(4.8)	(11.3)	(2.7)
Retail natural gas purchase contracts	Bcf	4.7	11.2	2.7

(a) Represents the balance of the current year.

(b) Includes contracts that are not derivatives and/or contracts that are NPNS, 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 September 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 September 30, 2012.

	Units	2012 (a)	2013	2014
FTRs (b)	GWh	13,843	21,078	2,727
Power Basis Positions (c)	GWh	(3,854)	(8,278)	(2,628)
Gas Basis Positions (d)	Bcf	2.2	(5.0)	(3.9)

(a) Represents the balance of the current year.

(b) Net volumes that deliver in future periods are 1,062 GWh.

(c) Net volumes that deliver in future periods are (677) GWh.

(d) Net volumes that deliver in future periods are (5.7) 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 buys and sells capacity for proprietary trading purposes. The following table presents the net volumes of derivative capacity (sales)/purchase contracts at September 30, 2012.

	Units	2012 (a)	2013	2014
Capacity (b)	MW-months	(3,098)	(5,446)	(2,078)

(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)

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. Outstanding interest rate swap contracts range in maturity through 2024 and had a notional amount of \$618 million. This amount includes £200 million (approximately \$318 million based on spot rates) at WPD.

PPL holds a notional position in cross-currency interest rate swaps totaling \$1.3 billion that range in maturity through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

For the three and nine months ended September 30, 2012, hedge ineffectiveness associated with interest rate derivatives was insignificant. For the three and nine months ended September 30, 2011, hedge ineffectiveness associated with interest rate derivatives was insignificant and an after-tax gain (loss) of \$(9) million, 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.

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 had no such reclassifications for the three and nine months ended September 30, 2012 and 2011.

At September 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 \$(13) million. Amounts are reclassified as the hedged interest payments are made.

Fair Value Hedges (PPL)

PPL is exposed to changes in the fair value of its 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. In July 2012, contracts ranged in maturity through 2047 and had a notional value of \$99 million were canceled without penalties by the counterparties. PPL did not hold any such contracts at September 30, 2012. PPL 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 nine months ended September 30, 2012 and 2011.

In July 2011, PPL Electric redeemed \$400 million of 7.125% Senior Secured Bonds due 2013. As a result of this redemption, PPL recorded a gain (loss) of \$22 million, or \$14 million after-tax, for the three and nine months ended September 30, 2011 in "Other Income (Expense) - net" on the Statement of Income as a result of accelerated amortization of the fair value adjustments to the debt in connection with previously settled fair value hedges.

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 September 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 September 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 September 30, 2012 had a notional amount of £163 million (approximately \$263 million based on contracted rates). The settlement dates of these contracts range from December 2012 through November 2013. The net fair value of these contracts at September 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 September 30, 2012, the intercompany loan outstanding was £62 million (approximately \$100 million based on spot rates).

For the three and nine months ended September 30, 2012 and 2011, PPL recognized insignificant amounts of activity in the foreign currency translation adjustment component of AOCI. At September 30, 2012, PPL included \$15 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 nine months ended September 30, 2012 and 2011.

Fair Value Hedges

PPL held no foreign currency derivatives that qualified as fair value hedges during the three and nine months ended September 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 September 30, 2012, the total exposure hedged by PPL was approximately £1.2 billion (approximately \$1.9 billion based on contracted rates) and the net fair value of these positions was an asset (liability) of \$(35) million. These contracts had termination dates ranging from October 2012 through November 2014. Realized and unrealized gains (losses) on these contracts are included in "Other Income (Expense) - net" on the Statements of Income and were \$(47) million and \$(40) million for the three and nine months ended September 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 \$11 million for the three and nine months ended September 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 insignificant losses and \$55 million of pre-tax, net gains (losses) for the three and nine months ended September 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 purchase and 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 September 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.

	September 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		\$ 16		\$ 5	\$ 3	\$ 3		\$ 5
Cross-currency swaps	\$ 1	2				2		
Foreign currency contracts		1		19	7			\$ 11
Commodity contracts	66	1	\$ 1,701	1,140	872	3	1,655	1,557
Total current	67	20	1,701	1,164	882	8	1,666	1,562
Noncurrent:								
Price Risk Management								
Assets/Liabilities (b):								
Interest rate swaps		5		57				55
Cross-currency swaps	23				24			
Foreign currency contracts				16				
Commodity contracts	30	1	807	805	42	2	854	783
Total noncurrent	53	6	807	878	66	2	854	838
Total derivatives	\$ 120	\$ 26	\$ 2,508	\$ 2,042	\$ 948	\$ 10	\$ 2,520	\$ 2,400

(a) \$479 million and \$237 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at September 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 \$231 million and \$527 million at September 30, 2012 and December 31, 2011. The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were \$491 million and \$695 million at September 30, 2011 and December 31, 2010.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets for the periods ended September 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	Nine Months	Three Months	Nine Months
			Interest rate swaps	Fixed rate debt	Interest expense	\$ (1)

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	\$ (6)	\$ (28)	Interest expense	\$ (4)		\$ (13)	
			Other income (expense) - net	1		1	
Cross-currency swaps	(49)	(3)	Interest expense			(1)	
			Other income (expense) - net	(40)		(12)	
Commodity contracts		99	Wholesale energy marketing	174		673	\$ (1)
			Depreciation	1		2	
			Energy purchases	(20)	\$ 1	(105)	(2)
Total	\$ (55)	\$ 68		\$ 112	\$ 1	\$ 545	\$ (3)
Net Investment Hedges:							
Foreign currency contracts	\$ (4)	\$ (5)					

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months
Foreign currency contracts	Other income (expense) - net	\$ (47)	\$ (40)
Interest rate swaps	Interest expense	(2)	(4)
Commodity contracts	Unregulated retail electric and gas	(3)	20
	Wholesale energy marketing	(476)	900
	Net energy trading margins (a)	(10)	12
	Fuel	6	
	Energy purchases	364	(717)
	Total	\$ (168)	\$ 171

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Nine Months
Interest rate swaps	Regulatory assets - noncurrent	\$ (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 September 30, 2011.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative		Gain (Loss) Recognized in Income on Related Item	
			Three Months	Nine Months	Three Months	Nine Months
Interest rate swaps	Fixed rate debt	Interest expense	\$ 2	\$ 5	\$ 23	\$ 23
		Other income (expense) - net			22	22

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	\$ (52)	\$ (51)	Interest expense	\$ (4)		\$ (10)	\$ (13)
Cross-currency swaps	46	13	Interest expense			3	
			Other income				
			(expense) - net	32		49	
Commodity contracts	66	116	Wholesale energy marketing	163	\$ (9)	530	(31)
			Fuel	1		1	
			Depreciation	1		1	
			Energy purchases	(42)		(159)	1
Total	\$ 60	\$ 78		\$ 151	\$ (9)	\$ 415	\$ (43)
Net Investment Hedges:							
Foreign currency contracts	\$ 5	\$ 4					

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months
Foreign currency contracts	Other income (expense) - net	\$ 11	\$ 66
Interest rate swaps	Interest expense	(2)	(6)
Commodity contracts	Utility	1	(2)
	Unregulated retail electric and gas	6	11
	Wholesale energy marketing	193	167
	Net energy trading margins (a)	(2)	9
	Fuel	(27)	(12)
	Energy purchases	(192)	(156)
	Total	\$ (12)	\$ 77

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Nine Months
Interest rate swaps	Regulatory assets	\$ (22)	\$ (23)

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

(PPL Energy Supply)

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

	September 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):								
Commodity contracts	\$ 66	\$ 1	\$ 1,701	\$ 1,140	\$ 872	\$ 3	\$ 1,655	\$ 1,557
Total current	66	1	1,701	1,140	872	3	1,655	1,557
Noncurrent:								
Price Risk Management Assets/Liabilities (b):								
Commodity contracts	30	1	807	805	42	2	854	783
Total noncurrent	30	1	807	805	42	2	854	783
Total derivatives	\$ 96	\$ 2	\$ 2,508	\$ 1,945	\$ 914	\$ 5	\$ 2,509	\$ 2,340

(a) \$479 million and \$237 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at September 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 \$312 million and \$605 million at September 30, 2012 and December 31, 2011. The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were \$539 million and \$733 million at September 30, 2011 and December 31, 2010. At September 30, 2011, AOCI reflects the effect of PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding.

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

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gains (Losses) Recognized in Income	Three Months		Nine Months			
	Three Months	Nine Months		Gain (Loss) Recognized in Income on Derivative (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		
	Commodity contracts	\$		99	Wholesale energy marketing	\$	174	\$	673
			Depreciation				1		
			Energy purchases		(20)		(105)		(2)
Total		\$			154	\$	569	\$	(3)

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months			
Commodity contracts	Unregulated retail electric and gas	\$	(3)	\$	20	
	Wholesale energy marketing		(476)		900	
	Net energy trading margins (a)		(10)		12	
	Fuel		6			
	Energy purchases		364		(717)	
	Total		\$	(119)	\$	215

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

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

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative		Gain (Loss) Recognized in Income on Related Item	
			Three Months	Nine Months	Three Months	Nine Months
Interest rate swaps	Fixed rate debt	Interest expense			\$	1

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gains (Losses) Recognized in Income	Three Months		Nine Months								
	Three Months	Nine Months		Gain (Loss) Recognized in Income on Derivative (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)							
	Cash Flow Hedges:													
Commodity contracts	\$	66	\$	116	Wholesale energy marketing	\$	163	\$	(9)	\$	530	\$	(31)	
					Fuel		1				1			
					Depreciation		1				1			
					Energy purchases		(42)				(159)		1	
Total		\$	66	\$	116		\$	123	\$	(9)	\$	373	\$	(30)

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months		Nine Months	
Commodity contracts	Unregulated retail electric and gas	\$	6	\$	11
	Wholesale energy marketing		193		167
	Net energy trading margins (a)		(2)		9
	Fuel		(27)		(12)
	Energy purchases		(192)		(156)
	Total	\$	(22)	\$	19

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

(LKE and LG&E)

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

	September 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 September 30, 2012.

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months		Nine Months	
Interest rate swaps	Interest expense	\$	(2)	\$	(6)

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months		Nine Months	
Interest rate swaps	Regulatory assets	\$	1	\$	(2)

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

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months		Nine Months	
Interest rate swaps	Interest expense	\$	(2)	\$	(6)
Commodity contracts	Operating revenues		1		(2)
	Total	\$	(1)	\$	(8)

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months		Nine Months	
Interest rate swaps	Regulatory assets	\$	(22)	\$	(23)

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 September 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:

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>LKE</u>	<u>LG&E</u>
Aggregate fair value of derivative instruments in a net liability position with credit contingent provisions	\$ 225	\$ 127	\$ 40	\$ 40
Aggregate fair value of collateral posted on these derivative instruments	33	1	32	32
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	201	134	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 nine months ended September 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.

	<u>PPL</u>	<u>PPL Energy Supply</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Balance at December 31, 2011	\$ 497	\$ 359	\$ 118	\$ 57	\$ 61
Accretion expense	27	21	5	2	3
Obligations incurred	3	3			
Changes in estimated cash flow or settlement date	(7)	(7)			
Obligations settled	(7)	(5)	(2)	(2)	
Balance at September 30, 2012	<u>\$ 513</u>	<u>\$ 371</u>	<u>\$ 121</u>	<u>\$ 57</u>	<u>\$ 64</u>

Substantially all of the ARO balances are classified as noncurrent at September 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 net 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 \$310 million and \$292 million at September 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 \$711 million and \$640 million at September 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.

	September 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	\$ 12			\$ 12	\$ 12			\$ 12
Equity securities:								
U.S. large-cap	219	\$ 193		412	211	\$ 146		357
U.S. mid/small-cap	30	29		59	29	23		52
Debt securities:								
U.S. Treasury	85	10		95	76	10		86
U.S. government sponsored agency								
Municipality	8	1		9	9	1		10
Municipality	79	5	\$ 1	83	80	4	\$ 1	83
Investment-grade corporate	36	4		40	35	3		38
Other	2			2	2			2
Receivables/payables, net	(1)			(1)				
Total NDT funds	470	242	1	711	454	187	1	640
Auction rate securities	20		1	19	25		1	24
Total	\$ 490	\$ 242	\$ 2	\$ 730	\$ 479	\$ 187	\$ 2	\$ 664

PPL Energy Supply

NDT funds:								
Cash and cash equivalents	\$ 12			\$ 12	\$ 12			\$ 12
Equity securities:								
U.S. large-cap	219	\$ 193		412	211	\$ 146		357
U.S. mid/small-cap	30	29		59	29	23		52
Debt securities:								
U.S. Treasury	85	10		95	76	10		86
U.S. government sponsored agency								
Municipality	8	1		9	9	1		10
Municipality	79	5	\$ 1	83	80	4	\$ 1	83
Investment-grade corporate	36	4		40	35	3		38
Other	2			2	2			2
Receivables/payables, net	(1)			(1)				
Total NDT funds	470	242	1	711	454	187	1	640
Auction rate securities	17		1	16	20		1	19
Total	\$ 487	\$ 242	\$ 2	\$ 727	\$ 474	\$ 187	\$ 2	\$ 659

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

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

	<u>Maturity Less Than 1 Year</u>	<u>Maturity 1-5 Years</u>	<u>Maturity 5-10 Years</u>	<u>Maturity in Excess of 10 Years</u>	<u>Total</u>
PPL					
Amortized cost	\$ 11	\$ 81	\$ 61	\$ 77	\$ 230
Fair value	11	85	67	85	248
PPL Energy Supply					
Amortized cost	\$ 11	\$ 81	\$ 61	\$ 74	\$ 227
Fair value	11	85	67	82	245

The following table shows proceeds from and realized gains and losses on sales of available-for-sale securities for the periods ended September 30.

	<u>Three Months</u>		<u>Nine Months</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
PPL				
Proceeds from sales of NDT securities (a)	\$ 23	\$ 34	\$ 102	\$ 134
Other proceeds from sales			5	163
Gross realized gains (b)	2	3	15	26
Gross realized losses (b)	2	4	8	15
PPL Energy Supply				
Proceeds from sales of NDT securities (a)	\$ 23	\$ 34	\$ 102	\$ 134
Other proceeds from sales			3	
Gross realized gains (b)	2	3	15	26
Gross realized losses (b)	2	4	8	15

(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 nine months ended September 30, 2011, LG&E received \$163 million for its investments in these bonds when they were remarketed to unaffiliated investors. No realized or unrealized gains (losses) were recorded on these securities, as the difference between carrying value and fair value was not significant.

18. New Accounting Guidance Pending Adoption

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

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.

PPL CORPORATION AND SUBSIDIARIES

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:

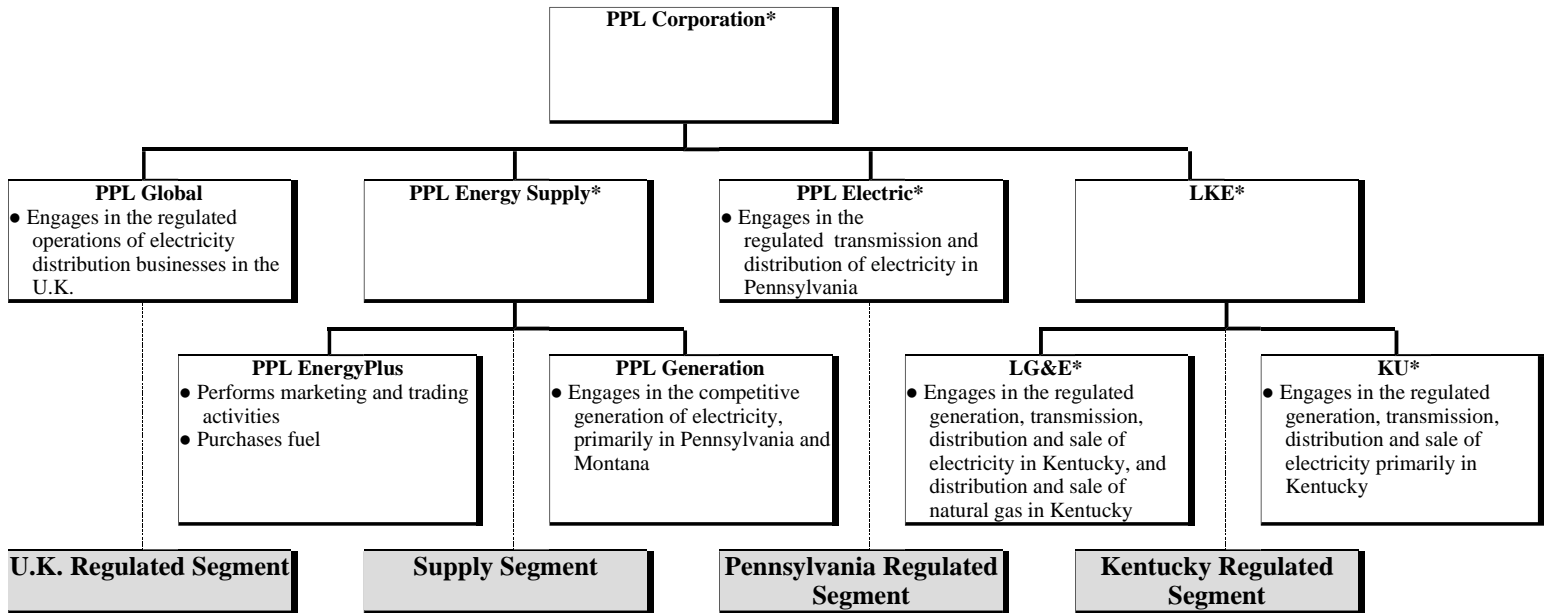
- "Overview" provides a description of PPL and its business strategy, a summary of Net Income Attributable to PPL Shareowners and a discussion of certain events related to PPL's results of operations and financial condition.
- "Results of Operations" provides a review of results by reportable segment 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 nine months ended September 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. As a result of these acquisitions, approximately 70% of PPL's assets were in its regulated businesses at September 30, 2012 and approximately 69% of "Net Income Attributable to PPL Shareowners" was from regulated businesses for the nine months ended September 30, 2012.

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.

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 portfolios. 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 risk, 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 Shareowners

Net Income Attributable to PPL Shareowners for the three and nine months ended September 30, 2012 was \$355 million and \$1.2 billion compared to \$444 million and \$1.0 billion for the same periods in 2011, representing a 20% decrease from and 12% increase over 2011. Net Income Attributable to PPL Shareowners for the periods ended September 30 by segment was:

	Three Months		Nine Months	
	2012	2011	2012	2011
Kentucky Regulated	\$ 72	\$ 78	\$ 148	\$ 184
U.K. Regulated (a)	202	138	563	231
Pennsylvania Regulated	33	28	95	116
Supply	48	200	361	510
Net Income Attributable to PPL Shareowners	<u>\$ 355</u>	<u>\$ 444</u>	<u>\$ 1,167</u>	<u>\$ 1,041</u>
EPS - basic	\$ 0.61	\$ 0.76	\$ 2.00	\$ 1.92
EPS - diluted	\$ 0.61	\$ 0.76	\$ 2.00	\$ 1.91

(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 nine months of WPD Midlands' results while the 2011 periods include three and five months of WPD Midlands' results.

The changes in Net Income Attributable to PPL Shareowners 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	89%	70%
Montana coal plants	87%	59%
Combined-cycle gas plants	70%	96%

(a) All periods reflect the nine months ending September 30.

This reduction in coal-fired generation output had 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 \$17 million and \$29 million during the three and nine months ended September 30, 2012 to reduce its 2012 and 2013 contracted coal deliveries. PPL Energy Supply will continue to manage its coal inventory to mitigate the financial impact and physical implications of an oversupply.

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 10 to the Financial Statements in this Form 10-Q and 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 anticipated retirement of six coal-fired units with a combined summer capacity rating of 797 MW 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 combined-cycle natural gas facility in Kentucky. In addition, PPL announced in September 2012 its intention, beginning in April 2015, to place its Corette plant in long-term reserve status, suspending the plant's operation due to expected market conditions and the costs to comply with the Mercury and Air Toxics Standards. The Corette plant's carrying value at September 30, 2012 was approximately \$67 million. Although the Corette plant was not determined to be impaired at September 30, 2012, it is reasonably possible that an impairment charge could be recorded in the fourth quarter of 2012 or in future periods, as higher priced sales contracts settle, adversely impacting projected cash flows.

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

Susquehanna Turbine Blade Inspection

PPL previously announced that a shutdown of Unit 1 of its Susquehanna nuclear power plant in October 2012 will include an inspection of that unit's turbine blades that could lead to the finalization of a plan to resolve the issue of turbine blade cracking that was first identified in 2011. Unit 1 is expected to resume operations by November 8, 2012. PPL plans to take an inspection outage for Unit 2. The projected pre-tax earnings impact of these inspections, including reduced energy-sales margins and possible repair expenses, is estimated in the range of \$43 million to \$58 million (\$26 million to \$35 million, after-tax), and the ultimate financial impact will depend on the duration of the Unit 2 outage.

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 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 \$21 million at September 30, 2012, which has been fully reserved.

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. No assurance can be given as to the collectability of the claim.

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 claims for refund on the basis that the U.K. WPT was creditable. In September 2010, the U.S. Tax Court (Tax Court) ruled in PPL's favor in a dispute with the IRS, concluding that the U.K. WPT is a creditable tax for U.S. tax purposes. As a result, and with 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. The Supreme Court granted PPL's petition on October 29, 2012, and PPL is assessing what impact, if any, this development will have on its results of operations in the fourth quarter of 2012. PPL

expects the case to be decided before the end of the Supreme Court's current term in June 2013 and cannot predict the outcome of this matter.

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 asset purchase agreement 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. LG&E and KU commenced preliminary construction activities in the third quarter of 2012 and project construction is expected to be completed by May 2015. The project, which includes building a natural gas supply pipeline and related transmission projects, has an estimated cost of approximately \$600 million.

Hurricane Sandy

In late October 2012, PPL Electric experienced widespread significant damage to its transmission and distribution network from Hurricane Sandy. The total costs associated with the restoration efforts are still being finalized but are estimated to be in excess of \$60 million. PPL Electric has insurance coverage that could cover a portion of the costs incurred from Hurricane Sandy. PPL Electric will have the ability to file a request with the PUC for permission to defer for future recovery certain of the costs incurred to repair the distribution network in excess of the insurance coverage. Costs incurred to repair the transmission network are recoverable through the FERC Formula Rate mechanism which is updated annually.

Regional Transmission Line Expansion Plan

On October 1, 2012, the National Park Service (NPS) issued its Record of Decision (ROD) on the proposed Susquehanna-Roseland transmission line affirming the route chosen by PPL Electric and Public Service Electric & Gas as the preferred alternative under the NPS's National Environmental Policy Act review. On October 15, 2012, a complaint was filed in the United States District Court for the District of Columbia by various environmental groups, including the Sierra Club, challenging the ROD and seeking to prohibit its implementation. Construction activities have begun on portions of the 101-mile route in Pennsylvania. The line is expected to be in service before the peak summer demand period of 2015. The chosen route had previously been approved by the PUC and New Jersey Board of Public Utilities. An appeal of the New Jersey Board of Public Utilities approval is pending before the New Jersey Superior Court Appellate Division. PPL Electric cannot predict the ultimate outcome or timing of 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 September 30, 2012, PPL Electric's estimated share of the project cost was \$560 million, an increase from approximately \$500 million at December 31, 2011, due primarily to increased material costs. See Note 8 in PPL's 2011 Form 10-K for additional information.

On October 9, 2012, the FERC issued an order in response to PPL Electric's December 2011 request for ratemaking incentives for the Northeast/Pocono Reliability project (a new 58-mile 230 kV transmission line, three new substations and upgrades to adjacent facilities). The incentives were specifically tailored to address the risks and challenges PPL Electric will face in building the project. The FERC granted the incentive for inclusion of 100% of prudently incurred construction work in progress (CWIP) costs in rate base and denied the request for a 100 basis point adder to the return on equity incentive. The order requires a follow-up compliance filing from PPL Electric to ensure proper accounting treatment of AFUDC and CWIP for the project. PPL Electric estimates the project costs to be approximately \$180 million.

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 (DSIC). 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. 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. In September 2012, PPL Electric filed its Long Term Infrastructure Improvement Plan (LTIIP) describing projects eligible for inclusion in the DSIC. In October 2012, several parties filed comments to the LTIIP but none of the comments requested evidentiary hearings on the LTIIP. A decision on the LTIIP is expected in January 2013. PPL Electric expects to file a petition requesting permission to establish a DSIC in January 2013 with rates proposed to be effective in April 2013.

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 September 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 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 recognized a deferred tax benefit of \$74 million in the three and nine months ended September 30, 2012.

Ofgem Review of Line Loss Calculation

WPD has a \$172 million liability recorded at September 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. In October 2012, a license modification was issued to allow Ofgem to publish the final decisions on these matters by April 2013. 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 591 thousand additional 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 over-allotment 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 are 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 nine months ended September 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, PPL's 2011 results for the nine-month period include five months of WPD Midlands' results. When discussing PPL's results of operations for 2012 compared with 2011, the results of WPD Midlands for both the three and nine-month periods (which includes PPL WEM for this purpose) are isolated for purposes of comparability. Significant drivers, if any, are disclosed for the comparable three-month periods. 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 Shareowners for the periods ended September 30 includes the following results:

	<u>Three Months</u>			<u>Nine Months</u>		
	<u>2012</u>	<u>2011</u>	<u>% Change</u>	<u>2012</u>	<u>2011</u>	<u>% Change</u>
Utility revenues	\$ 732	\$ 736	(1)	\$ 2,095	\$ 2,140	(2)
Fuel	249	245	2	677	666	2
Energy purchases	27	32	(16)	135	179	(25)
Other operation and maintenance	186	187	(1)	589	566	4
Depreciation	87	84	4	259	249	4
Taxes, other than income	11	10	10	34	28	21
Total operating expenses	560	558		1,694	1,688	
Other Income (Expense) - net	(4)		n/a	(14)	(1)	1,300
Interest Expense (a)	54	53	2	163	161	1
Income Taxes	42	46	(9)	70	105	(33)
Income (Loss) from Discontinued Operations		(1)	(100)	(6)	(1)	500
Net Income Attributable to PPL Shareowners	\$ 72	\$ 78	(8)	\$ 148	\$ 184	(20)

- (a) Includes allocated interest expense of \$17 million and \$51 million for the three and nine months ended September 30, 2012 and \$17 million and \$53 million for the three and nine months ended September 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.

	<u>Three Months</u>	<u>Nine Months</u>
Kentucky gross margins	\$ (4)	\$ (22)
Other operation and maintenance	3	(12)
Depreciation	(2)	(8)
Taxes, other than income	(1)	(6)
Other Income (Expense) - net	(4)	(13)
Other	(2)	(3)
Income Taxes	4	29
Special items, after-tax		(1)
Total	<u>\$ (6)</u>	<u>\$ (36)</u>

- 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 nine-month period, primarily due to \$12 million of higher coal plant maintenance costs resulting from an increased scope of scheduled plant outages.
- Higher depreciation for the nine-month period, primarily due to PP&E additions.
- Higher taxes, other than income for the nine-month period, primarily due to an increase in property taxes resulting from property additions, higher assessed values, and changes in property classifications to categories with higher tax rates.
- Lower other income (expense) - net for the nine-month period, primarily due to losses from an equity method investment.
- Lower income taxes for the nine-month period, primarily due to lower pre-tax income.

The following after-tax gains (losses), which management considers special items, also impacted the Kentucky Regulated segment's results during the periods ended September 30.

	Income Statement Line Item	<u>Three Months</u>		<u>Nine Months</u>	
		2012	2011	2012	2011
Adjusted energy-related economic activity, net, net of tax of \$0, (\$1), \$0, \$0	Utility Revenues	\$ 1		\$ 1	
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 \$0, \$1, \$4, \$0 (a)	Disc. Operations		(1)	(5)	(1)
Total				<u>\$ (1)</u>	

- (a) The nine months ended September 30, 2012 includes an adjustment to an indemnification liability.

Outlook

Excluding special items, PPL projects lower segment earnings in 2012 compared with 2011, primarily driven by higher other operation and maintenance expense, higher depreciation, higher property taxes and losses from an equity method investment.

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. In November 2012, the KPSC issued an order for a settlement conference to begin on November 13, 2012. A hearing on the original application and subsequent testimony is scheduled to begin on November 27, 2012. LG&E and KU cannot predict the outcome of these proceedings, including the possibility of any agreed stipulations or settlement, which would remain subject to KPSC approval. A final order may be issued in December 2012 or January 2013.

Earnings in 2012 and future periods 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 Shareowners for the periods ended September 30 includes the following results:

	Three Months			Nine Months		
	2012	2011	% Change	2012	2011	% Change
Utility revenues	\$ 207	\$ 194	7	\$ 644	\$ 613	5
Energy-related businesses	9	8	13	27	27	
Total operating revenues	216	202	7	671	640	5
Other operation and maintenance	52	45	16	159	136	17
Depreciation	32	32		96	94	2
Taxes, other than income	13	14	(7)	39	40	(3)
Energy-related businesses	5	4	25	16	12	33
Total operating expenses	102	95	7	310	282	10
Other Income (Expense) - net	(49)	10	(590)	(39)	13	(400)
Interest Expense (a)	45	47	(4)	138	145	(5)
Income Taxes	(34)	(14)	143	6	14	(57)
WPD Midlands, net of tax (b)	151	118	28	392	183	114
WPD Midlands acquisition-related adjustments, net of tax	(3)	(64)	(95)	(7)	(164)	(96)
Net Income Attributable to PPL Shareowners	\$ 202	\$ 138	46	\$ 563	\$ 231	144

- (a) Includes allocated interest expense of \$12 million and \$35 million for the three and nine months ended September 30, 2012 and \$12 million and \$26 million for the three and nine months ended September 30, 2011, primarily related to the 2011 Equity Units.
- (b) The nine months ended September 30, 2011 represent the results of operations of WPD Midlands for the period from the April 1, 2011 acquisition date through September 30, 2011, recorded on a one month lag. These amounts exclude acquisition-related adjustments. WPD Midlands' revenue from external customers was \$312 million and \$976 million for the three and nine months ended September 30, 2012 and \$292 million and \$499 million for the three and nine months ended September 30, 2011 (pre-tax).

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	Nine Months
PPL WW		
Utility revenues	\$ 20	\$ 47
Other operation and maintenance	(6)	(24)
Interest expense	2	13
Other	(3)	(5)
Income taxes	4	8
WPD Midlands, after-tax	29	214
U.S.		
Interest expense and other		(15)
Income taxes	(3)	(17)
Foreign currency exchange rates, after-tax (a)	(7)	(15)
Special items, after-tax	28	126
Total	\$ 64	\$ 332

- (a) Includes the effect of realized gains/(losses) on foreign currency economic hedges.

PPL WW

- Higher utility revenues for the three-month period due to the April 1, 2012 price increase which resulted in \$14 million of higher utility revenues and \$3 million of lower regulatory recovery in 2011.

Higher utility revenues for the nine-month period due to the April 1, 2011 and 2012 price increases which resulted in \$69 million of higher utility revenues, partially offset by \$17 million of lower volumes due primarily to a downturn in the economy and the unfavorable effect of weather, and \$8 million of lower regulatory recovery due to a 2012 charge to income for the over-recovery of revenues from customers.

- Higher other operation and maintenance for the nine-month period primarily due to \$15 million of higher pension expense resulting from an increase in amortization of actuarial losses and \$8 million of higher network maintenance expense.
- Lower interest expense for the nine-month period due to \$11 million of lower interest expense on index-linked notes.
- Lower income taxes for the three-month period primarily due to an income tax benefit related to the tax deductibility of interest on acquisition financing.

Lower income taxes for the nine-month period primarily due to a \$13 million income tax benefit related to the tax deductibility of interest on acquisition financing, partially offset by higher income taxes of \$8 million arising from higher pre-tax income.

WPD Midlands

- Higher earnings for the three-month period due to the April 1, 2012 price increase, which resulted in \$32 million of higher utility revenues.
- The nine-month period ended September 30, 2012 is not comparable to 2011 as 2011 includes only five months of WPD Midlands' results.

U.S.

- Higher interest expense and other for the nine-month period due to \$13 million of higher interest expense associated with the 2011 Equity Units issued to finance the WPD Midlands acquisition due to 2012 including nine months of interest expense compared to five months in 2011.
- Higher income taxes for the nine-month period due to \$21 million of income tax benefits recorded in 2011 as a result of U.K. pension plan contributions.

Foreign Currency Exchange Rates

- Changes in foreign currency exchange rates negatively affected earnings for the three and nine-month periods. The weighted-average exchange rates for British pound sterling, including the effects of foreign currency economic hedges, were approximately \$1.57 in 2012 and \$1.63 in 2011 for the three-month period and \$1.58 in 2012 and \$1.61 in 2011 for the nine-month period.

The following after-tax gains (losses), which management considers special items, also impacted the U.K. Regulated segment's results during the periods ended September 30.

	Income Statement Line Item	Three Months		Nine Months	
		2012	2011	2012	2011
Foreign currency-related economic hedges, net of tax of \$18, (\$3), \$17, (\$4) (a)	Other Income-net	\$ (30)	\$ 8	\$ (28)	\$ 8
WPD Midlands acquisition-related adjustments:					
2011 Bridge Facility costs, net of tax of \$0, \$0, \$0, \$13 (b)	Interest Expense				(30)
Foreign currency loss on 2011 Bridge Facility, net of tax of \$0, \$0, \$0, \$19 (c)	Other Income-net				(38)
Net hedge gains, net of tax of \$0, \$0, \$0, (\$17) (c)	Other Income-net				38
Hedge ineffectiveness, net of tax of \$0, \$0, \$0, \$3 (d)	Interest Expense				(9)
U.K. stamp duty tax, net of tax of \$0, \$0, \$0, \$0 (e)	Other Income-net				(21)
Separation benefits, net of tax of \$1, \$22, \$3, \$24 (Note 8)	Other O&M	(1)	(64)	(9)	(68)
Other acquisition-related adjustments, net of tax of \$0, (\$2), (\$1), \$9	(f)	(2)		2	(36)
Other:					
Change in U.K. tax rate (g)	Income Taxes	74	69	74	69
Total		<u>\$ 41</u>	<u>\$ 13</u>	<u>\$ 39</u>	<u>\$ (87)</u>

(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 \$55 million. 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.

(e) Tax on the transfer of ownership of property in the U.K. which is not tax deductible for income tax purposes.

- (f) The nine months ended September 30, 2011 primarily includes \$36 million, pre-tax, of advisory, accounting and legal fees which are reflected in "Other Income (Expense) - net" on the Statements of Income. In addition, \$9 million, pre-tax, of costs were recorded to "Other operation and maintenance" on the Statements of Income.
- (g) 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 2012, enacted in July 2012, reduced the U.K. statutory income tax rate from 25% to 24% retroactive to April 1, 2012 and from 24% to 23% effective April 1, 2013. As a result, PPL reduced its net deferred tax liability and recognized a deferred tax benefit in the three and nine-month periods of 2012 and 2011. WPD Midlands' portion of the deferred tax benefit was \$42 million for both periods in 2012 and \$35 million for both periods in 2011.

Outlook

Excluding special items, PPL projects higher segment earnings in 2012 compared with 2011, primarily driven by four additional months of earnings from WPD Midlands and higher electricity delivery revenue. Partially offsetting these positive earnings drivers are higher other operation and maintenance expense, higher depreciation, higher interest expense, higher income taxes and a less favorable currency exchange rate.

Earnings in 2012 and future periods are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2 and Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business" and "Item 1A. Risk Factors" in PPL's 2011 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Pennsylvania Regulated Segment

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

Net Income Attributable to PPL Shareowners for the periods ended September 30 includes the following results:

	Three Months			Nine Months		
	2012	2011	% Change	2012	2011	% Change
Operating revenues						
External	\$ 443	\$ 454	(2)	\$ 1,303	\$ 1,444	(10)
Intersegment	1	1		3	9	(67)
Total operating revenues	444	455	(2)	1,306	1,453	(10)
Energy purchases						
External	137	171	(20)	410	591	(31)
Intersegment	23	5	360	61	15	307
Other operation and maintenance	148	146	1	431	402	7
Depreciation	41	38	8	119	108	10
Taxes, other than income	24	26	(8)	72	83	(13)
Total operating expenses	373	386	(3)	1,093	1,199	(9)
Other Income (Expense) - net	3	3		6	4	50
Interest Expense	25	26	(4)	73	74	(1)
Income Taxes	16	14	14	47	56	(16)
Net Income	33	32	3	99	128	(23)
Net Income Attributable to Noncontrolling Interests		4	(100)	4	12	(67)
Net Income Attributable to PPL Shareowners	\$ 33	\$ 28	18	\$ 95	\$ 116	(18)

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	Nine Months
Pennsylvania gross delivery margins	\$ 11	\$ 1
Other operation and maintenance	(7)	(32)
Depreciation	(3)	(11)
Other	2	4
Income Taxes	(2)	9
Noncontrolling Interests	4	8
Total	\$ 5	\$ (21)

- 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 for the three-month period, primarily due to \$9 million of higher payroll-related costs, \$2 million of higher vegetation management costs and \$2 million of higher corporate service costs, partially offset by \$6 million of lower PUC-reportable storm costs.

Higher other operation and maintenance for the nine-month period, primarily due to \$16 million of higher payroll-related costs, \$10 million of higher vegetation management costs, \$7 million of higher corporate service costs and \$4 million of higher contractor costs, partially offset by \$13 million of lower PUC-reportable storm costs.

- Higher depreciation for the nine-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 nine-month period, primarily due to lower pre-tax income.
- Lower noncontrolling interests for the three and nine-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 other 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 effective January 1, 2013. The proposed distribution rate increase would result in a 2.9% increase over PPL Electric's total rates at the time of the request. PPL Electric's application includes a request for an authorized return-on-equity of 11.25%. On October 19, 2012, the presiding Administrative Law Judge (ALJ) issued a decision recommending a rate increase of approximately \$64 million, which represents an allowed return on equity of 9.74%. Exceptions to the ALJ's recommendation are due November 8, 2012. PPL Electric expects to file exceptions, together with certain other parties, to the ALJ's recommended decision. The PUC, which is expected to issue its order on the rate request in December 2012, can accept, reject or modify the ALJ's recommendation. PPL cannot predict the outcome of this proceeding.

Earnings in 2012 and future periods 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 Shareowners for the periods ended September 30 includes the following results:

	Three Months			Nine Months		
	2012	2011	% Change	2012	2011	% Change
Energy revenues						
External (a)	\$ 567	\$ 1,305	(57)	\$ 3,673	\$ 3,437	7
Intersegment	23	5	360	61	15	307
Energy-related businesses	133	132	1	346	360	(4)
Total operating revenues	723	1,442	(50)	4,080	3,812	7
Fuel (a)	321	358	(10)	728	826	(12)
Energy purchases						
External (a)	(150)	335	(145)	1,288	746	73
Intersegment	1	2	(50)	2	3	(33)
Other operation and maintenance	215	191	13	750	707	6
Depreciation	81	66	23	229	194	18
Taxes, other than income	19	18	6	54	49	10
Energy-related businesses	129	131	(2)	339	356	(5)
Total operating expenses	616	1,101	(44)	3,390	2,881	18
Other Income (Expense) - net	6	22	(73)	15	41	(63)
Other-Than-Temporary Impairments		5	(100)	1	6	(83)
Interest Expense	62	59	5	163	159	3
Income Taxes	3	99	(97)	180	299	(40)
Income (Loss) from Discontinued Operations		1	(100)		3	(100)
Net Income	48	201	(76)	361	511	(29)
Net Income Attributable to Noncontrolling Interests		1	(100)		1	(100)
Net Income Attributable to PPL Shareowners	\$ 48	\$ 200	(76)	\$ 361	\$ 510	(29)

- (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.

	<u>Three Months</u>	<u>Nine Months</u>
Unregulated gross energy margins	\$ (38)	\$ (125)
Other operation and maintenance	(23)	(42)
Depreciation	(15)	(35)
Other Income (Expense) - net	(18)	(30)
Other	7	1
Income Taxes	33	106
Discontinued operations, after-tax	(1)	2
Special items, after-tax	(97)	(26)
Total	\$ (152)	\$ (149)

- 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 for the three-month period due to \$8 million of higher costs at PPL Susquehanna, \$7 million due to a planned outage at PPL Brunner Island in September 2012 and \$4 million of higher costs from Ironwood as a result of the acquisition.

Higher other operation and maintenance for the nine-month period primarily due to \$27 million of higher costs at PPL Susquehanna including refueling outage costs, payroll-related costs and timing of projects and \$13 million of higher costs from Ironwood as a result of the acquisition.

- Higher depreciation for the three and nine-month periods due to the impact of PP&E additions, and \$7 million and \$11 million due to the Ironwood Acquisition.
- Lower other income (expense) - net for the three and nine-month periods primarily due to a \$22 million gain on the redemption of debt in the third quarter of 2011.
- Lower income taxes for the three-month period primarily due to lower pre-tax income.

Lower income taxes for the nine-month period due to lower pre-tax income, which reduced income taxes by \$73 million, \$15 million of net deferred tax benefits from state tax adjustments recorded in 2012 and \$11 million of Pennsylvania net operating loss valuation allowance adjustments recorded in 2011, driven primarily by the impact of bonus depreciation.

The following after-tax gains (losses), which management considers special items, also impacted the Supply segment's results during the periods ended September 30.

	Income Statement Line Item	<u>Three Months</u>		<u>Nine Months</u>	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Adjusted energy-related economic activity, net, net of tax of \$63, \$8, (\$16), (\$2)	(a)	\$ (95)	\$ (10)	\$ 23	\$ 4
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				(3)
Adjustments - nuclear decommissioning trust investments, net of tax of \$0, \$2, (\$2), \$2	Other Income-net		(1)	1	
LKE acquisition-related adjustments:					
Sale of certain non-core generation facilities, net of tax of \$0, \$0, \$0, \$0	Disc. Operations				(2)
Other:					
Montana hydroelectric litigation, net of tax of \$0, \$0, \$0, \$1	Interest Expense		(1)		(2)
Litigation settlement - spent nuclear fuel storage, net of tax of \$0, (\$2), \$0, (\$23) (b)	Fuel		4		33
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	
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 \$7, \$0, \$12, \$0 (e)	Fuel	(10)		(17)	
Total		\$ (105)	\$ (8)	\$ 3	\$ 29

- (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 DOE'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. The amounts recorded through September 2011 cover the costs incurred from 1998 through December 2010.
- (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 utilization has decreased. Contract modification payments were incurred to reduce 2012 and 2013 contracted coal deliveries.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) for the periods ended September 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		Nine Months	
	2012	2011	2012	2011
Operating Revenues				
Unregulated retail electric and gas	\$ (13)	\$ 4	\$ (15)	\$ 9
Wholesale energy marketing	(716)	216	(322)	229
Operating Expenses				
Fuel	3	(28)	(11)	(16)
Energy Purchases	569	(176)	420	(49)
Energy-related economic activity (a)	(157)	16	72	173
Option premiums (b)		6	1	17
Adjusted energy-related economic activity	(157)	22	73	190
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010	1	40	34	184
Adjusted energy-related economic activity, net, pre-tax	\$ (158)	\$ (18)	\$ 39	\$ 6
Adjusted energy-related economic activity, net, after-tax	\$ (95)	\$ (10)	\$ 23	\$ 4

- (a) See Note 14 to the Financial Statements for additional information.
- (b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. Option premiums are recorded in "Wholesale energy marketing - Realized" and "Energy purchases - Realized" on the Statements of Income.

Outlook

Excluding special items, PPL projects lower segment earnings in 2012 compared with 2011. The decrease is primarily driven by lower energy margins as a result of lower energy and capacity prices and lower generation volumes, higher other operation and maintenance expense and higher depreciation.

Earnings in 2012 and future periods 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 "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 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 September 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	\$ 732	\$ 443		\$ 518 (c)	\$ 1,693	\$ 734	\$ 454		\$ 487 (c)	\$ 1,675
PLR intersegment utility revenue (expense) (d)		(23)	\$ 23				(5)	\$ 5		
Unregulated retail electric and gas			232	(14)(g)	218			186	3 (g)	189
Wholesale energy marketing										
Realized			1,074	2 (f)	1,076			897	10 (f)	907
Unrealized economic activity				(716)(g)	(716)				216 (g)	216
Net energy trading margins			(11)		(11)			(7)		(7)
Energy-related businesses				143	143				140	140
Total Operating Revenues	732	420	1,318	(67)	2,403	734	449	1,081	856	3,120

	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 Expenses										
Fuel	249		310	11 (e)	570	245		338	20 (e)	603
Energy purchases										
Realized	27	137	418	1 (f)	583	32	171	119	40 (f)	362
Unrealized economic activity				(569)(g)	(569)				176 (g)	176
Other operation and maintenance	28	25	1	596	650	26	30		679	735
Depreciation	13			265	278	12			240	252
Taxes, other than income		23	11	56	90		24	8	58	90
Energy-related businesses				137	137				135	135
Intercompany eliminations		(1)	1				(1)	1		
Total Operating Expenses	317	184	741	497	1,739	315	224	466	1,348	2,353
Total	\$ 415	\$ 236	\$ 577	\$ (564)	\$ 664	\$ 419	\$ 225	\$ 615	\$ (492)	\$ 767

	2012 Nine Months					2011 Nine Months				
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues										
Utility	\$ 2,095	\$ 1,303		\$ 1,614 (c)	\$ 5,012	\$ 2,139	\$ 1,444		\$ 1,112 (c)	\$ 4,695
PLR intersegment utility revenue (expense) (d)		(61)	\$ 61				(15)	\$ 15		
Unregulated retail electric and gas			638	(18)(g)	620			509	8 (g)	517
Wholesale energy marketing										
Realized			3,353	14 (f)	3,367			2,635	42 (f)	2,677
Unrealized economic activity				(322)(g)	(322)				229 (g)	229
Net energy trading margins			7		7			14		14
Energy-related businesses				380	380				387	387
Total Operating Revenues	2,095	1,242	4,059	1,668	9,064	2,139	1,429	3,173	1,778	8,519

	2012 Nine Months					2011 Nine Months				
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Expenses										
Fuel	677		695	33 (e)	1,405	666		872	(46)(e)	1,492
Energy purchases										
Realized	135	410	1,669	39 (f)	2,253	179	591	496	201 (f)	1,467
Unrealized economic activity				(420)(g)	(420)				49 (g)	49
Other operation and maintenance	76	74	12	1,933	2,095	67	77	13	1,884	2,041
Depreciation	39			774	813	37			660	697
Taxes, other than income		67	27	174	268		77	22	139	238
Energy-related businesses				363	363				368	368
Intercompany eliminations		(3)	2	1			(9)	3	6	
Total Operating Expenses	927	548	2,405	2,897	6,777	949	736	1,406	3,261	6,352
Discontinued operations								12	(12)(h)	
Total	\$ 1,168	\$ 694	\$ 1,654	\$ (1,229)	\$ 2,287	\$ 1,190	\$ 693	\$ 1,779	\$ (1,495)	\$ 2,167

- (a) Represents amounts excluded from Margins.
- (b) As reported on the Statements 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 nine months ended September 30, 2012, include pre-tax losses of \$17 million and \$29 million related to coal contract modification payments. The three and nine months ended September 30, 2011 include pre-tax credits of \$6 million and \$56 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 nine months ended September 30, 2012, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" include net pre-tax losses of \$1 million and \$34 million related to the monetization of certain full-requirement sales contracts. The three and nine months ended September 30, 2011 include net pre-tax losses of \$40 million and \$184 million related to the monetization of certain full-requirement sales contracts and net pre-tax gains of \$6 million and \$17 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 September 30 as well as the change between periods. The factors that gave rise to the changes are described below the table.

	Three Months			Nine Months		
	2012	2011	Change	2012	2011	Change
Kentucky Gross Margins	\$ 415	\$ 419	\$ (4)	\$ 1,168	\$ 1,190	\$ (22)
PA Gross Delivery Margins by Component						
Distribution	\$ 185	\$ 179	\$ 6	\$ 544	\$ 560	\$ (16)
Transmission	51	46	5	150	133	17
Total	\$ 236	\$ 225	\$ 11	\$ 694	\$ 693	\$ 1
Unregulated Gross Energy Margins by Region						
Non-trading						
Eastern U.S.	\$ 521	\$ 530	\$ (9)	\$ 1,417	\$ 1,502	\$ (85)
Western U.S.	67	92	(25)	230	263	(33)
Net energy trading	(11)	(7)	(4)	7	14	(7)
Total	\$ 577	\$ 615	\$ (38)	\$ 1,654	\$ 1,779	\$ (125)

Kentucky Gross Margins

Margins decreased for the nine months ended September 30, 2012 compared with the same period in 2011, primarily due to \$16 million of lower retail margins, as volumes were impacted by unseasonably mild weather during the first four months of 2012, and \$6 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 nine months ended September 30, 2012 compared with the same period in 2011, primarily due to an \$18 million unfavorable effect of mild weather early in 2012. The three and nine-month periods were impacted by a \$7 million charge recorded in 2011 to reduce a portion of the transmission service charge regulatory asset associated with a 2005 undercollection that was not included in any subsequent rate reconciliations filed with the PUC.

Transmission

Margins increased for the three and nine-month periods ended September 30, 2012, compared with the same periods in 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 September 30, 2012 compared with 2011 were due to:

	Three Months	Nine Months
Baseload energy prices	\$ (44)	\$ (132)
Baseload capacity prices	3	(47)
Intermediate and peaking capacity prices	5	(22)
Impact of non-core generation facilities sold in the first quarter of 2011		(12)
Full-requirement sales contracts	3	(10)
Net economic availability of coal and hydroelectric units	(7)	12
Retail electric	5	12
Ironwood acquisition which eliminates tolling expense (a)	14	27
Nuclear generation volume (b)	11	93
Other	1	(6)
	\$ (9)	\$ (85)

(a) See Note 8 to the Financial Statements for additional information.

(b) Volumes were higher for the nine-month period due to a shorter outage period for blade inspections, an unplanned outage in March 2011 and an uprate in the third quarter of 2011. Volumes were higher for the three-month period due to higher availability in 2012.

Western U.S.

Non-trading margins for the three and nine months ended September 30, 2012 compared with the same periods in 2011 were lower due to \$14 million and \$31 million of lower wholesale sales, including \$10 million and \$23 million related to the bankruptcy of SMGT. The three-month period was also lower due to \$5 million of higher fuel costs.

Utility Revenues

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

	<u>Three Months</u>	<u>Nine Months</u>
Domestic:		
PPL Electric (a)	\$ (11)	\$ (141)
LKE (b)	(4)	(45)
Total Domestic	<u>(15)</u>	<u>(186)</u>
U.K.:		
PPL WW		
Price (c)	14	69
Volume (d)	(2)	(17)
Recovery of allowed revenues (e)	3	(8)
Foreign currency exchange rates	(7)	(15)
Other	5	2
Total PPL WW	<u>13</u>	<u>31</u>
WPD Midlands (f)	<u>20</u>	<u>472</u>
Total U.K.	<u>33</u>	<u>503</u>
Total	<u>\$ 18</u>	<u>\$ 317</u>

(a) See "Pennsylvania Gross Delivery Margins" for further information.

(b) See "Kentucky Gross Margins" for further information.

(c) The three- and nine-month periods were impacted by a price increase effective April 1, 2012. The nine-month period was also impacted by a price increase effective April 1, 2011.

(d) The decrease for the nine-month period is primarily due to the downturn in the economy and the unfavorable effect of weather.

(e) The decrease for the nine-month period is primarily due to a 2012 charge to income for the over-recovery of revenues from customers.

(f) The increase for the three-month period is primarily due to a price increase effective April 1, 2012. The nine-month period ended September 30, 2012 is not comparable to 2011 as 2011 includes only five months of WPD Midlands' results.

Other Operation and Maintenance

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

	<u>Three Months</u>	<u>Nine Months</u>
Domestic:		
Uncollectible accounts (a)	\$ (5)	\$ 11
LKE coal plant maintenance costs (b)	2	13
LKE storm costs (c)		6
PPL Susquehanna nuclear plant costs (d)	8	27
Ironwood Acquisition (e)	4	13
PUC-reportable storm costs, net of insurance recoveries	(3)	(18)
Costs at Western fossil and hydroelectric plants	(4)	(9)
Costs at Eastern fossil and hydroelectric plants (f)	9	(4)
Payroll-related costs - PPL Electric	9	16
Vegetation management	3	12
Stock based compensation	2	15
Other		20
U.K.:		
PPL WW (g)	4	21
WPD Midlands (h)	<u>(114)</u>	<u>(69)</u>
Total	<u>\$ (85)</u>	<u>\$ 54</u>

(a) In October 2011, SMGT filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. The increase for the nine-month period primarily reflects an \$11 million increase to a reserve on SMGT unpaid amounts.

(b) The increase for the nine-month period is primarily due to 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-related costs and timing of projects.

(e) There are no comparable amounts in the 2011 periods as the Ironwood Acquisition occurred in April 2012.

(f) The increase for the three-month period is primarily due to a planned outage at PPL Brunner Island in September 2012.

(g) The increase for the nine-month period includes \$15 million of higher pension expense resulting from an increase in amortization of actuarial losses and \$8 million of higher network maintenance expense.

- (h) The decrease for the three-month period is primarily due to lower charges recorded as a result of the acquisition, including \$85 million for severance compensation, early retirement deficiency costs and outplacement services for employees separating from WPD Midlands and \$5 million of other acquisition-related adjustments, and a decrease in pension costs of \$6 million. The nine-month period ended September 30, 2012 is not comparable to 2011 as 2011 includes only five months of WPD Midlands' results. The nine-month period also reflects \$81 million of lower charges recorded as a result of the acquisition for severance compensation, early retirement deficiency costs and outplacement services for employees separating from WPD Midlands and \$12 million of lower other acquisition-related costs.

Depreciation

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

	<u>Three Months</u>	<u>Nine Months</u>
Additions to PP&E	\$ 16	\$ 52
WPD Midlands (a)	6	59
Ironwood Acquisition (Note 8)	7	11
Other	(3)	(6)
Total	<u>\$ 26</u>	<u>\$ 116</u>

- (a) The nine-month period ended September 30, 2012 is not comparable to 2011 as 2011 includes only five months of WPD Midlands' results.

Taxes, Other Than Income

The increase in taxes, other than income for the nine months ended September 30, 2012 compared with 2011 was due to:

	<u>Nine Months</u>
Pennsylvania gross receipts tax (a)	\$ (14)
Domestic property tax	7
WPD Midlands (b)	31
Other	6
Total	<u>\$ 30</u>

- (a) The decrease for the nine-month period is primarily due to a decrease in taxable electric revenue. This tax is included in "Unregulated Gross Energy Margins" and "Pennsylvania Gross Delivery Margins."
 (b) The nine-month period ended September 30, 2012 is not comparable to 2011 as 2011 includes only five months of WPD Midlands' results.

Other Income (Expense) - net

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

	<u>Three Months</u>	<u>Nine Months</u>
Change in the fair value of economic foreign currency exchange contracts (Note 14)	\$ (58)	\$ (51)
Net hedge gains associated with the 2011 Bridge Facility (a)		(55)
Foreign currency loss on 2011 Bridge Facility (b)		57
Gain on redemption of debt (c)	(22)	(22)
WPD Midlands acquisition-related adjustments in 2011 (Note 8)		57
Earnings (losses) from equity method investments	(2)	(8)
Other	1	(7)
Total	<u>\$ (81)</u>	<u>\$ (29)</u>

- (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.
 (c) In July 2011, as a result of PPL Electric's redemption of 7.125% Senior Secured Bonds due 2013, PPL recorded a gain on the accelerated amortization of the fair value adjustment to the debt recorded in connection with previously settled fair value hedges.

See Note 12 to the Financial Statements for further details.

Interest Expense

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

	<u>Three Months</u>	<u>Nine Months</u>
2011 Bridge Facility costs related to financing the acquisition of WPD Midlands		\$ (43)
2011 Equity Units (a)		13
Long-term debt interest expense (b)	\$ (1)	(11)
Short-term debt interest expense (c)	(4)	(11)
Hedging activity and ineffectiveness	6	25
Inflation adjustment on U.K. Index-linked Senior Unsecured Notes	(3)	(11)
Net amortization of debt discounts, premiums and issuance costs	(6)	(5)
WPD Midlands (d)	9	77
Ironwood Acquisition (Note 8)	4	8
Other	3	(6)
Total	<u>\$ 8</u>	<u>\$ 36</u>

- (a) Interest related to the issuance in April 2011 to support the WPD Midlands acquisition.
- (b) The decrease was primarily due to the redemption of \$250 million of 7.0% Senior Notes due 2046 in July 2011 along with the repayment of \$500 million of 6.4% Senior Notes and subsequent issuance of \$500 million of 4.6% Senior Notes, both in the fourth quarter of 2011.
- (c) The decrease was primarily due to lower interest rates on 2012 short-term borrowings.
- (d) The nine-month period ended September 30, 2012 is not comparable to 2011 as 2011 includes only five months of WPD Midlands' results.

Income Taxes

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

	<u>Three Months</u>	<u>Nine Months</u>
Lower pre-tax book income	\$ (108)	\$ (131)
State valuation allowance adjustments (a)	2	(9)
Federal and state tax reserve adjustments	(6)	(8)
Federal and state tax return adjustments		2
U.S. income tax on foreign earnings net of foreign tax credit (b)	9	27
Foreign tax reserve adjustments (c)		(5)
Net operating loss carryforward adjustments (d)		(9)
Depreciation not normalized (a)	(1)	1
WPD Midlands (e)	25	86
State deferred tax rate change (f)	(6)	(17)
Other	(8)	(2)
Total	<u>\$ (93)</u>	<u>\$ (65)</u>

- (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 an \$11 million state deferred income tax expense during the nine months ended September 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 nine months ended September 30, 2011, PPL recorded a \$7 million and \$21 million federal income tax benefit related to U.K. pension contributions.
- (c) During the nine months ended September 30, 2012, PPL recorded a tax benefit following resolution of a U.K. tax issue related to interest expense.
- (d) During the nine months ended September 30, 2012, PPL recorded adjustments to deferred taxes related to net operating loss carryforwards of LKE based on income tax return adjustments.
- (e) The increase for the three-month period was due to an increase in pre-tax book income, which increased taxes by \$30 million, partially offset by an incremental \$6 million deferred tax benefit related to the 2012 U.K. Finance Act compared with the 2011 U.K. Finance Act. The nine-month period ended September 30, 2012 is not comparable to 2011 as 2011 includes only five months of WPD Midlands' results.
- (f) During the three and nine months ended September 30, 2012, PPL recorded adjustments related to state deferred tax liabilities.

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 \$8 million for the nine months ended September 30, 2012, compared with 2011. The increase was primarily related to an adjustment to a liability for indemnifications related to the termination of the WKE lease in 2009.

Noncontrolling Interests

"Net Income Attributable to Noncontrolling Interests" decreased by \$5 million and \$9 million for the three and nine months ended September 30, 2012 compared with 2011. The decrease is primarily 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:

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Cash and cash equivalents	\$ 946	\$ 1,202
Short-term investments		16
	<u>\$ 946</u>	<u>\$ 1,218</u>
Short-term debt	<u>\$ 526</u>	<u>\$ 578</u>

At September 30, 2012, \$360 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 \$256 million decrease in PPL's cash and cash equivalents position was primarily the net result of:

- capital expenditures of \$2.1 billion;
- the payment of \$623 million of common stock dividends;
- the redemption of preference stock of a subsidiary of \$250 million;
- the retirement of long-term debt of \$105 million;
- the Ironwood Acquisition for \$84 million, net of cash acquired;
- net cash provided by operating activities of \$2.1 billion; and
- proceeds of \$824 million from the issuance of long-term debt.

PPL's cash provided by operating activities increased by \$248 million for the nine months ended September 30, 2012 compared with 2011. The increase was primarily due to:

- an increase of \$185 million in net income, when adjusted for non-cash components; and
- a decrease of \$39 million in defined benefit plan funding.

Credit Facilities

PPL maintains credit facilities to provide liquidity and to backstop commercial paper issuances. At September 30, 2012, PPL's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued and Commercial Paper Backstop</u>	<u>Unused Capacity</u>
PPL Energy Supply Credit Facilities	\$ 3,200		\$ 594	\$ 2,606
PPL Electric Credit Facilities (a)	400		1	399
LG&E Credit Facility	400			400
KU Credit Facilities (b)	598		198	400
Total Domestic Credit Facilities (c) (d)	<u>\$ 4,598</u>		<u>\$ 793</u>	<u>\$ 3,805</u>
PPL WW Credit Facility (e)	£ 150	£ 107	n/a	£ 43
WPD (South West) Credit Facility (f)	245		n/a	245
WPD (East Midlands) Credit Facility	300			300
WPD (West Midlands) Credit Facility	300			300
Total WPD Credit Facilities (g)	<u>£ 995</u>	<u>£ 107</u>		<u>£ 888</u>

- (a) In April 2012, PPL Electric increased the capacity of its syndicated credit facility from \$200 million to \$300 million.

Committed capacity includes a \$100 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 \$100 million from a commercial paper conduit sponsored by a financial institution. At September 30, 2012, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under the facility was \$100 million. In July 2012, PPL Electric and the subsidiary reduced the capacity from \$150 million and in September 2012 extended the agreement to September 2013.

- (b) In August 2012, the KU letter of credit facility agreement was amended and restated to allow for certain payments under the letter of credit facility to be converted to loans rather than requiring immediate payment.
- (c) 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.
- (d) In November 2012, the syndicated credit facilities were amended to extend the expiration dates to November 2017 for PPL Energy Supply, LG&E and KU and to October 2017 for PPL Electric. In addition, LG&E increased the credit facility capacity to \$500 million.
- (e) The amount outstanding at September 30, 2012 was a USD-denominated borrowing of \$171 million, which equated to £107 million at the time of borrowing and bore interest at 0.8818%.
- (f) In January 2012, WPD (South West) entered into a £245 million 5-year syndicated credit facility to replace its previous £210 million 3-year syndicated credit facility. 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.
- (g) At September 30, 2012, the U.S. dollar equivalent of unused capacity under WPD's committed credit facilities was \$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, if and when necessary. 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 September 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 September 30, 2012, PPL Energy Supply had \$355 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of 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. PPL Electric had no commercial paper outstanding at September 30, 2012.

Long-term Debt and Equity Securities

In April 2012, PPL made a registered underwritten public offering of 9.9 million shares of its common stock. In conjunction with that offering, the underwriters exercised an option to purchase 591 thousand additional 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 are 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 to the Financial Statements for information on the transaction and the long-term 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, which were 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 August 2012, PPL Capital Funding redeemed at par, plus accrued interest, the \$99 million outstanding principal amount of its 6.85% Senior Notes due 2047.

In August 2012, PPL Electric issued \$250 million of 2.50% First Mortgage Bonds due 2022. The notes may be redeemed at PPL Electric's option any time prior to maturity at make-whole redemption prices. PPL Electric received proceeds of \$247 million, net of a discount and underwriting fees. The net proceeds were used to repay short-term indebtedness incurred to fund PPL Electric's redemption of its 6.25% Series Preference Stock in June 2012 and for other general corporate purposes.

In October 2012, PPL Capital Funding issued \$400 million of 3.50% 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 \$397 million, net of an underwriting discount and fees, which will be used to repay short-term debt obligations, including commercial paper borrowings and for general corporate purposes.

See Note 7 in PPL's 2011 Form 10-K for information on the 2010 Equity Units (with respect to which the related \$1.150 billion of Notes are expected to be remarketed in 2013), the 2011 Bridge Facility, the 2011 Equity Units and the April 2011 issuance of common stock.

Common Stock Dividends

In August 2012, PPL declared its quarterly common stock dividend, payable October 1, 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 securities of PPL and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

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

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

The rating agencies took the following actions related to PPL and its subsidiaries:

In January 2012, S&P affirmed its rating and revised its outlook 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 \$400 million of 4.20% Senior Notes.

In August 2012, Fitch assigned a rating and outlook to PPL Electric's \$250 million First Mortgage Bonds.

In August 2012, S&P and Moody's assigned a rating to PPL Electric's \$250 million First Mortgage Bonds.

In October 2012, Fitch affirmed the long-term issuer default rating and senior unsecured rating of PPL WW, WPD (South Wales) and WPD (South West).

In October 2012, Moody's, S&P and Fitch assigned a rating to PPL Capital Funding's \$400 million of 3.50% Senior Notes.

In October 2012, S&P affirmed its rating for PPL.

In November 2012, S&P revised its outlook for PPL Montana's Pass Through Certificates due 2020.

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 September 30, 2012. At September 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 \$486 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 environmental capital spending for the period 2012 through 2016 by approximately \$0.5 billion from the previously disclosed \$3.4 billion projection of environmental capital spending included in PPL's 2011 Form 10-K. The lower projected capital spending is based on current project evaluations and pricing contained in contracts executed to date for environmental construction projects. PPL continues to evaluate potential new generation supply sources, including self-build options and power sourced from the market, as an alternative to installing additional emission control equipment at E.W. Brown, which is jointly dispatched for LG&E and KU, and in lieu of the terminated Bluegrass CTs acquisition discussed in Notes 6 and 8 to the Financial Statements. PPL expects to complete its evaluation during the first half of 2013. The outcome of that evaluation may lead to additional changes in projected capital spending.

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 September 30, 2012 and December 31, 2011 was a net asset/(liability) of \$491 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 range in maturity through 2019.

The following table sets forth the changes in the net fair value of non-trading commodity derivative contracts for the periods ended September 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Nine Months	
	2012	2011	2012	2011
Fair value of contracts outstanding at the beginning of the period	\$ 961	\$ 894	\$ 1,082	\$ 956
Contracts realized or otherwise settled during the period	(224)	(100)	(764)	(237)
Fair value of new contracts entered into during the period (a)	(11)	4	1	19
Other changes in fair value	(101)	46	306	106
Fair value of contracts outstanding at the end of the period	<u>\$ 625</u>	<u>\$ 844</u>	<u>\$ 625</u>	<u>\$ 844</u>

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

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices based on significant observable inputs (Level 2)	\$ 520	\$ 94	\$ (19)	\$ 7	\$ 602
Prices based on significant unobservable inputs (Level 3)	11	8	4		23
Fair value of contracts outstanding at the end of the period	<u>\$ 531</u>	<u>\$ 102</u>	<u>\$ (15)</u>	<u>\$ 7</u>	<u>\$ 625</u>

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 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'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. 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 range in maturity through 2017. The following table sets forth changes in the net fair value of trading commodity derivative contracts for the periods ended September 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Nine Months	
	2012	2011	2012	2011
Fair value of contracts outstanding at the beginning of the period	\$ 17	\$ 15	\$ (4)	\$ 4
Contracts realized or otherwise settled during the period	17	(10)	16	(7)
Fair value of new contracts entered into during the period (a)	13	(2)	18	6
Other changes in fair value	(15)	4	2	4
Fair value of contracts outstanding at the end of the period	<u>\$ 32</u>	<u>\$ 7</u>	<u>\$ 32</u>	<u>\$ 7</u>

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

Unrealized gains of approximately \$4 million will be reversed over the next three months as the transactions are realized.

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

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices based on significant observable inputs (Level 2)	\$ 18	\$ 11	\$ 1		\$ 30
Prices based on significant unobservable inputs (Level 3)	2				2
Fair value of contracts outstanding at the end of the period	<u>\$ 20</u>	<u>\$ 11</u>	<u>\$ 1</u>		<u>\$ 32</u>

VaR Models

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

	Trading VaR		Non-Trading VaR	
	Nine Months Ended September 30, 2012	Twelve Months Ended December 31, 2011	Nine Months Ended September 30, 2012	Twelve Months Ended December 31, 2011
95% Confidence Level, Five-Day Holding Period				
Period End	\$ 6	\$ 1	\$ 10	\$ 6
Average for the Period	3	3	9	5
High	8	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 September 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 September 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 September 30, 2012 would increase the fair value of its debt portfolio by \$609 million.

At September 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)	\$ 618	\$ (21)	\$ (14)
Cross-currency swaps (d)	1,262	20	(180)
Economic hedges			
Interest rate swaps (e)	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 September 30, 2012 mature through 2024.

(d) PPL utilizes cross-currency swaps to hedge the interest payments and principal of WPD's 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 September 30, 2012 mature through 2028.

(e) 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 September 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 September 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)	£ 163	\$ (1)	\$ (26)
Economic hedges (c)	1,199	(35)	(185)

- (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 September 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 September 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 September 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 September 30, 2012, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated \$49 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL's 2011 Form 10-K for additional information.

Foreign Currency Translation

The value of the British pound sterling fluctuates in relation to the U.S. dollar. Changes in these exchange rates resulted in a foreign currency translation gain of \$53 million for the nine months ended September 30, 2012, which primarily reflected a \$93 million increase to PP&E offset by an increase of \$40 million to net liabilities. Changes in these exchange rates resulted in a foreign currency translation gain of \$154 million for the nine months ended September 30, 2011, which primarily reflected a \$242 million increase to PP&E offset by an increase of \$88 million to net liabilities. 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 8 to the Financial Statements in this Form 10-Q and Note 10 to the Financial Statements in PPL's 2011 Form 10-K 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.

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

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 Member 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 nine months ended September 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 portfolios. 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 risk, counterparty credit risk and operational risk.

To manage financing costs and access to credit markets, a key objective of PPL Energy Supply's business strategy 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 Member

Net Income Attributable to PPL Energy Supply Member for the three and nine months ended September 30, 2012 was \$54 million and \$382 million compared to \$169 million and \$472 million for the same periods in 2011, representing decreases of 68% and 19% from 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	89%	70%
Montana coal plants	87%	59%
Combined-cycle gas plants	70%	96%

(a) All periods reflect the nine months ending September 30.

This reduction in coal-fired generation output had 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 \$17 million and \$29 million during the three and nine months ended September 30, 2012 to reduce its 2012 and 2013 contracted coal deliveries. PPL Energy Supply will continue to manage its coal inventory to mitigate the financial impact and physical implications of an oversupply.

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 10 to the Financial Statements in this Form 10-Q and Note 15 to the Financial Statements in PPL Energy Supply's 2011 Form 10-K for additional information on these requirements. As a result of these requirements, PPL Energy Supply announced in September 2012 its intention, beginning in April 2015, to place its Corette plant in long-term reserve status, suspending the plant's operation due to expected market conditions and the costs to comply with the Mercury and Air Toxics Standards. The Corette plant's carrying value at September 30, 2012 was approximately \$67 million. Although the Corette plant was not determined to be impaired at September 30, 2012, it is reasonably possible that an impairment charge could be recorded in the fourth quarter of 2012 or in future periods, as higher priced sales contracts settle, adversely impacting projected cash flows.

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 other generating assets were impaired, and determined that no impairment charges were required at September 30, 2012. PPL Energy Supply is unable to predict whether future environmental requirements or market conditions will result in impairment charges for other generating assets or additional 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.

Susquehanna Turbine Blade Inspection

PPL Energy Supply previously announced that a shutdown of Unit 1 of its Susquehanna nuclear power plant in October 2012 will include an inspection of that unit's turbine blades that could lead to the finalization of a plan to resolve the issue of turbine blade cracking that was first identified in 2011. Unit 1 is expected to resume operations by November 8, 2012. PPL Energy Supply plans to take an inspection outage for Unit 2. The projected pre-tax earnings impact of these inspections, including reduced energy-sales margins and possible repair expenses, is estimated in the range of \$43 million to \$58 million (\$26 million to \$35 million, after-tax), and the ultimate financial impact will depend on the duration of the Unit 2 outage.

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 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 \$21 million at September 30, 2012, which has been fully reserved.

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. No assurance can be given as to the collectability of the claim.

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 nine months ended September 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 Member for the periods ended September 30 was:

	Three Months		Nine Months	
	2012	2011	2012	2011
Net Income Attributable to PPL Energy Supply Member	\$ 54	\$ 169	\$ 382	\$ 472

The changes in the components of Net Income Attributable to PPL Energy Supply Member 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	Nine Months
Unregulated gross energy margins	\$ (38)	\$ (125)
Other operation and maintenance	(11)	(27)
Depreciation	(11)	(25)
Other Income (Expense) - net		(10)
Interest Expense	8	24
Other	9	6
Income Taxes	25	90
Discontinued operations, after-tax		3
Special items, after-tax	(97)	(26)
Total	<u>\$ (115)</u>	<u>\$ (90)</u>

- 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 for the three-month period primarily due to \$8 million of higher costs at PPL Susquehanna, \$7 million due to a planned outage at PPL Brunner Island in September 2012 and \$4 million of higher costs from Ironwood as a result of the acquisition, partially offset by \$9 million of trademark royalties with an affiliate in 2011 for which the agreement was terminated December 31, 2011.

Higher other operation and maintenance for the nine-month period primarily due to \$27 million of higher costs at PPL Susquehanna including refueling outage costs, payroll-related costs and timing of projects, \$17 million from higher systems-related costs and timing of projects and \$13 million of higher costs from Ironwood as a result of the acquisition, partially offset by \$26 million of trademark royalties with an affiliate in 2011 for which the agreement was terminated December 31, 2011.

- Higher depreciation for the three and nine-month periods due to the impact of PP&E additions, including \$7 million and \$11 million due to the Ironwood Acquisition.
- Lower other income (expense) - net for the nine-month period partly due to lower earnings on securities in the NDT funds.
- Lower interest expense for the three and nine-month periods due to 2011 including the acceleration of deferred financing fees of \$7 million related to the July 2011 redemption of \$250 million of 7.00% Senior Notes. In addition, the nine-month period was lower due to a \$10 million impact of not replacing the \$250 million of debt, a \$7 million impact from \$500 million in debt that matured in 2011 being replaced with debt at a lower interest rate, and a \$10 million impact from less short-term debt in 2012, partially offset by an \$8 million increase related to the debt assumed through consolidation as a result of the Ironwood Acquisition.
- Lower income taxes for the three-month period primarily due to lower pre-tax income.

Lower income taxes for the nine-month period due to lower pre-tax income, which reduced income taxes by \$67 million, \$15 million of net deferred tax benefits from state tax adjustments 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 gains (losses), which management considers special items, also impacted the results during the periods ended September 30.

Income Statement Line Item	Three Months		Nine Months		
	2012	2011	2012	2011	
Adjusted energy-related economic activity, net, net of tax of \$63, \$8, (\$16), (\$2)	(a)	\$ (95)	\$ (10)	\$ 23	\$ 4
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				(3)
Adjustments - nuclear decommissioning trust investments, net of tax of \$0, \$2, (\$2), \$2	Other Income-net		(1)	1	
LKE acquisition-related adjustments:					
Sale of certain non-core generation facilities, net of tax of \$0, \$0, \$0, \$0	Disc. Operations				(2)
Other:					
Montana hydroelectric litigation, net of tax of \$0, \$0, \$0, \$1	Interest Expense		(1)		(2)
Litigation settlement - spent nuclear fuel storage, net of tax of \$0, (\$2), \$0, (\$23) (b)	Fuel		4		33
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	
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 \$7, \$0, \$12, \$0 (e)	Fuel	(10)		(17)	
Total		\$ (105)	\$ (8)	\$ 3	\$ 29

- (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 DOE'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. The amounts recorded through September 2011 cover the costs incurred from 1998 through December 2010.
- (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 utilization has decreased. Contract modification payments were incurred to reduce 2012 and 2013 contracted coal deliveries.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) for the periods ended September 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		Nine Months	
	2012	2011	2012	2011
Operating Revenues				
Unregulated retail electric and gas	\$ (13)	\$ 4	\$ (15)	\$ 9
Wholesale energy marketing	(716)	216	(322)	229
Operating Expenses				
Fuel	3	(28)	(11)	(16)
Energy Purchases	569	(176)	420	(49)
Energy-related economic activity (a)	(157)	16	72	173
Option premiums (b)		6	1	17
Adjusted energy-related economic activity	(157)	22	73	190
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010	1	40	34	184
Adjusted energy-related economic activity, net, pre-tax	<u>\$ (158)</u>	<u>\$ (18)</u>	<u>\$ 39</u>	<u>\$ 6</u>
Adjusted energy-related economic activity, net, after-tax	<u>\$ (95)</u>	<u>\$ (10)</u>	<u>\$ 23</u>	<u>\$ 4</u>

- (a) See Note 14 to the Financial Statements for additional information.
- (b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. Option premiums are recorded in "Wholesale energy marketing - Realized" and "Energy purchases - Realized" on the Statements of Income.

Outlook

Excluding special items, PPL Energy Supply projects lower earnings in 2012 compared with 2011. The decrease is primarily driven by lower energy margins as a result of lower energy and capacity prices and lower generation volumes, higher other operation and maintenance expense and higher depreciation.

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" 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 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 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. 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 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 tables reconcile "Operating Income" to "Unregulated Gross Energy Margins" as defined by PPL Energy Supply for the periods ended September 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	\$ 1,074	\$ 2 (c)	\$ 1,076	\$ 897	\$ 10 (c)	\$ 907
Unrealized economic activity		(716) (d)	(716)		216 (d)	216
Wholesale energy marketing to affiliate	23		23	5		5
Unregulated retail electric and gas	232	(13) (d)	219	186	4 (d)	190
Net energy trading margins	(11)		(11)	(7)		(7)
Energy-related businesses		128	128		130	130
Total Operating Revenues	1,318	(599)	719	1,081	360	1,441

	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 Expenses						
Fuel	310	11 (e)	321	338	20 (e)	358
Energy purchases						
Realized	418	3 (c)	421	119	42 (c)	161
Unrealized economic activity		(569) (d)	(569)		176 (d)	176
Energy purchases from affiliate	1		1	1		1
Other operation and maintenance	1	219	220		208	208
Depreciation		73	73		62	62
Taxes, other than income	11	7	18	8	10	18
Energy-related businesses		125	125		130	130
Total Operating Expenses	741	(131)	610	466	648	1,114
Total	\$ 577	\$ (468)	\$ 109	\$ 615	\$ (288)	\$ 327

	2012 Nine Months			2011 Nine Months		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues						
Wholesale energy marketing						
Realized	\$ 3,353	\$ 14 (c)	\$ 3,367	\$ 2,635	\$ 42 (c)	\$ 2,677
Unrealized economic activity		(322) (d)	(322)		229 (d)	229
Wholesale energy marketing to affiliate	61		61	15		15
Unregulated retail electric and gas	638	(15) (d)	623	509	9 (d)	518
Net energy trading margins	7		7	14		14
Energy-related businesses		336	336		354	354
Total Operating Revenues	4,059	13	4,072	3,173	634	3,807

Operating Expenses						
Fuel	695	33 (e)	728	872	(46) (e)	826
Energy purchases						
Realized	1,669	46 (c)	1,715	496	205 (c)	701
Unrealized economic activity		(420) (d)	(420)		49 (d)	49
Energy purchases from affiliate	2		2	3		3
Other operation and maintenance	12	757	769	13	728	741
Depreciation		206	206		181	181
Taxes, other than income	27	26	53	22	28	50
Energy-related businesses		326	326		350	350
Total Operating Expenses	2,405	974	3,379	1,406	1,495	2,901
Discontinued Operations				12	(12) (f)	
Total	\$ 1,654	\$ (961)	\$ 693	\$ 1,779	\$ (873)	\$ 906

- (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 nine months ended September 30, 2012, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" include net pre-tax losses of \$1 million and \$34 million related to the monetization of certain full-requirement sales contracts. The three and nine months ended September 30, 2011 include net pre-tax losses of \$40 million and \$184 million related to the monetization of certain full-requirement sales contracts and net pre-tax gains of \$6 million and \$17 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 nine months ended September 30, 2012 include pre-tax losses of \$17 million and \$29 million related to coal contract modification payments. The three and nine months ended September 30, 2011 include pre-tax credits of \$6 million and \$56 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 September 30, as well as the change between periods. The factors that gave rise to the changes are described below the table.

	Three Months			Nine Months		
	2012	2011	Change	2012	2011	Change
Non-trading						
Eastern U.S.	\$ 521	\$ 530	\$ (9)	\$ 1,417	\$ 1,502	\$ (85)
Western U.S.	67	92	(25)	230	263	(33)
Net energy trading	(11)	(7)	(4)	7	14	(7)
Total	<u>\$ 577</u>	<u>\$ 615</u>	<u>\$ (38)</u>	<u>\$ 1,654</u>	<u>\$ 1,779</u>	<u>\$ (125)</u>

Eastern U.S.

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

	Three Months	Nine Months
Baseload energy prices	\$ (44)	\$ (132)
Baseload capacity prices	3	(47)
Intermediate and peaking capacity prices	5	(22)
Impact of non-core generation facilities sold in the first quarter of 2011		(12)
Full-requirement sales contracts	3	(10)
Net economic availability of coal and hydroelectric units	(7)	12
Retail electric	5	12
Ironwood acquisition which eliminates tolling expense (a)	14	27
Nuclear generation volume (b)	11	93
Other	1	(6)
Total	<u>\$ (9)</u>	<u>\$ (85)</u>

(a) See Note 8 to the Financial Statements for additional information.

(b) Volumes were higher for the nine-month period due to a shorter outage period for blade inspections, an unplanned outage in March 2011 and an uprate in the third quarter of 2011. Volumes were higher for the three-month period due to higher availability in 2012.

Western U.S.

Non-trading margins for the three and nine months ended September 30, 2012 compared with the same periods in 2011 were lower due to \$14 million and \$31 million of lower wholesale sales, including \$10 million and \$23 million related to the bankruptcy of SMGT. The three-month period was also lower due to \$5 million of higher fuel costs.

Other Operation and Maintenance

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

	Three Months	Nine Months
Susquehanna nuclear plant costs (a)	\$ 8	\$ 27
Uncollectible accounts (b)	(2)	9
Ironwood acquisition (c)	4	13
Costs at Western fossil and hydroelectric plants	(4)	(9)
Costs at Eastern fossil and hydroelectric plants (d)	9	(4)
Gain on disposition of RECs	(2)	(8)
Trademark royalties (e)	(9)	(26)
Corporate service costs (f)	5	19
Other	3	7
Total	<u>\$ 12</u>	<u>\$ 28</u>

(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 nine-month period primarily reflects an \$11 million increase to a reserve on SMGT unpaid amounts.

(c) There are no comparable amounts in the 2011 periods as the Ironwood Acquisition occurred in April 2012.

(d) Increase for the three-month period primarily due to a planned outage at PPL Brunner Island in September 2012.

(e) In 2011, PPL Energy Supply was charged trademark royalties by an affiliate. The agreement was terminated December 31, 2011.

(f) Primarily due to systems-related costs and timing of projects.

Depreciation

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

	<u>Three Months</u>	<u>Nine Months</u>
Additions to PP&E	\$ 4	\$ 14
Ironwood Acquisition (Note 8)	7	11
Total	<u>\$ 11</u>	<u>\$ 25</u>

Other Income (Expense) - net

See Note 12 to the Financial Statements for details.

Interest Expense

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

	<u>Three Months</u>	<u>Nine Months</u>
Long-term debt interest expense (a)	\$ (3)	\$ (13)
Short-term debt interest expense (b)	(3)	(10)
Ironwood Acquisition (Note 8)	4	8
Net amortization of debt discounts, premiums and issuance costs (c)	(8)	(9)
Other	1	(3)
Total	<u>\$ (9)</u>	<u>\$ (27)</u>

- (a) The decrease was primarily due to the redemption of \$250 million of 7.0% Senior Notes due 2046 in July 2011 along with the repayment of \$500 million of 6.4% Senior Notes and subsequent issuance of \$500 million of 4.6% Senior Notes, both in the fourth quarter of 2011.
- (b) The decrease was primarily due to lower interest rates on 2012 short-term borrowings.
- (c) The three and nine-month periods include the impact of accelerating the amortization of deferred financing fees of \$7 million in 2011, due to the July 2011 redemption.

Income Taxes

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

	<u>Three Months</u>	<u>Nine Months</u>
Lower pre-tax book income	\$ (82)	\$ (80)
State valuation allowance adjustments (a)	2	(4)
State deferred tax rate change (b)	(6)	(17)
Other	(2)	(2)
Total	<u>\$ (88)</u>	<u>\$ (103)</u>

- (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 \$6 million of state deferred income tax expense during the nine months ended September 30, 2011 related to valuation allowances on state net operating loss carryforwards.
- (b) During the three and nine months ended September 30, 2012, PPL Energy Supply recorded adjustments 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:

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Cash and cash equivalents	\$ 432	\$ 379
Short-term debt	<u>\$ 355</u>	<u>\$ 400</u>

The \$53 million increase in PPL Energy Supply's cash and cash equivalents position was primarily the net result of:

- net cash provided by operating activities of \$674 million;
- contributions from Member of \$472 million;
- a net decrease in notes receivable from affiliate of \$198 million;
- distributions to Member of \$733 million;
- capital expenditures of \$460 million; and
- the Ironwood Acquisition for \$84 million, net of cash acquired.

PPL Energy Supply's cash provided by operating activities increased by \$234 million for the nine months ended September 30, 2012, compared with 2011. This was primarily due to a \$177 million increase in cash from components of working capital (primarily due to changes in counterparty collateral, partially offset by changes in unbilled revenues and accrued taxes) and a \$66 million decrease in defined benefit plan funding.

Credit Facilities

PPL Energy Supply maintains credit facilities to provide liquidity and to backstop commercial paper issuances. At September 30, 2012, PPL Energy Supply's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued and Commercial Paper Backstop</u>	<u>Unused Capacity</u>
Syndicated Credit Facility (a)	\$ 3,000		\$ 468	\$ 2,532
Letter of Credit Facility	200	n/a	126	74
Total PPL Energy Supply Credit Facilities (b)	<u>\$ 3,200</u>		<u>\$ 594</u>	<u>\$ 2,606</u>

(a) In November 2012, PPL Energy Supply amended its syndicated credit facility to extend the expiration date to November 2017.

(b) 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 September 30, 2012, PPL Energy Supply had \$355 million of commercial paper outstanding, included in "Short-term debt" on the Balance Sheet, at a weighted-average interest rate of 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.
- In November 2012, S&P 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 September 30, 2012. At September 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 \$341 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 September 30, 2012 and December 31, 2011 was a net asset/(liability) of \$491

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 the net fair value of non-trading commodity derivative contracts for the periods ended September 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Nine Months	
	2012	2011	2012	2011
Fair value of contracts outstanding at the beginning of the period	\$ 961	\$ 896	\$ 1,082	\$ 958
Contracts realized or otherwise settled during the period	(224)	(99)	(764)	(234)
Fair value of new contracts entered into during the period (a)	(11)	4	1	19
Other changes in fair value	(101)	43	306	101
Fair value of contracts outstanding at the end of the period	\$ 625	\$ 844	\$ 625	\$ 844

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

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices based on significant observable inputs (Level 2)	\$ 520	\$ 94	\$ (19)	\$ 7	\$ 602
Prices based on significant unobservable inputs (Level 3)	11	8	4		23
Fair value of contracts outstanding at the end of the period	\$ 531	\$ 102	\$ (15)	\$ 7	\$ 625

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 September 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Nine Months	
	2012	2011	2012	2011
Fair value of contracts outstanding at the beginning of the period	\$ 17	\$ 15	\$ (4)	\$ 4
Contracts realized or otherwise settled during the period	17	(10)	16	(7)
Fair value of new contracts entered into during the period (a)	13	(2)	18	6
Other changes in fair value	(15)	4	2	4
Fair value of contracts outstanding at the end of the period	\$ 32	\$ 7	\$ 32	\$ 7

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

Unrealized gains of approximately \$4 million will be reversed over the next three months as the transactions are realized.

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

Source of Fair Value	Net Asset (Liability)				Total Fair Value
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	
Prices based on significant observable inputs (Level 2)	\$ 18	\$ 11	\$ 1		\$ 30
Prices based on significant unobservable inputs (Level 3)	2				2
Fair value of contracts outstanding at the end of the period	\$ 20	\$ 11	\$ 1		\$ 32

VaR Models

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

	Trading VaR		Non-Trading VaR	
	Nine Months Ended September 30, 2012	Twelve Months Ended December 31, 2011	Nine Months Ended September 30, 2012	Twelve Months Ended December 31, 2011
95% Confidence Level, Five-Day Holding Period				
Period End	\$ 6	\$ 1	\$ 10	\$ 6
Average for the Period	3	3	9	5
High	8	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 September 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 September 30, 2012.

At September 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 September 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 September 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 September 30, 2012, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated \$49 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.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

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 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 nine months ended September 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 transmission and distribution 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 for at least the next five years. In order to manage financing costs and access to credit markets, a key objective for PPL Electric's business strategy 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

Net Income Available to PPL for the three and nine months ended September 30, 2012 was \$33 million and \$95 million compared to \$28 million and \$116 million for the same periods in 2011, representing an 18% increase over and an 18% 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."

Hurricane Sandy

In late October 2012, PPL Electric experienced widespread significant damage to its transmission and distribution network from Hurricane Sandy. The total costs associated with the restoration efforts are still being finalized but are estimated to be in excess of \$60 million. PPL Electric has insurance coverage that could cover a portion of the costs incurred from Hurricane Sandy. PPL Electric will have the ability to file a request with the PUC for permission to defer for future recovery certain of the costs incurred to repair the distribution network in excess of the insurance coverage. Costs incurred to repair the transmission network are recoverable through the FERC Formula Rate mechanism which is updated annually.

Regional Transmission Line Expansion Plan

On October 1, 2012, the National Park Service (NPS) issued its Record of Decision (ROD) on the proposed Susquehanna-Roseland transmission line affirming the route chosen by PPL Electric and Public Service Electric & Gas as the preferred alternative under the NPS's National Environmental Policy Act review. On October 15, 2012, a complaint was filed in the United States District Court for the District of Columbia by various environmental groups, including the Sierra Club, challenging the ROD and seeking to prohibit its implementation. Construction activities have begun on portions of the 101-mile route in Pennsylvania. The line is expected to be in service before the peak summer demand period of 2015. The chosen route had previously been approved by the PUC and New Jersey Board of Public Utilities. An appeal of the New Jersey Board of Public Utilities approval is pending before the New Jersey Superior Court Appellate Division. PPL Electric cannot predict the ultimate outcome or timing of 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 September 30, 2012, PPL Electric's estimated share of the project cost was \$560 million, an increase from approximately \$500 million at December 31, 2011, due primarily to increased material costs. See Note 8 in PPL Electric's 2011 Form 10-K for additional information.

On October 9, 2012, the FERC issued an order in response to PPL Electric's December 2011 request for ratemaking incentives for the Northeast/Pocono Reliability project (a new 58-mile 230 kV transmission line, three new substations and upgrades to adjacent facilities). The incentives were specifically tailored to address the risks and challenges PPL Electric will face in building the project. The FERC granted the incentive for inclusion of 100% of prudently incurred construction work in progress (CWIP) costs in rate base and denied the request for a 100 basis point adder to the return on equity incentive. The order requires a follow-up compliance filing from PPL Electric to ensure proper accounting treatment of AFUDC and CWIP for the project. PPL Electric estimates the project costs to be approximately \$180 million.

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 (DSIC). 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. 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.

In September 2012, PPL Electric filed its Long Term Infrastructure Improvement Plan (LTIIIP) describing projects eligible for inclusion in the DSIC. In October 2012, several parties filed comments to the LTIIIP but none of the comments requested evidentiary hearings on the LTIIIP. A decision on the LTIIIP is expected in January 2013. PPL Electric expects to file a petition requesting permission to establish a DSIC in January 2013 with rates proposed to be effective in April 2013.

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 September 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 nine months ended September 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 for the periods ended September 30 was:

	<u>Three Months</u>		<u>Nine Months</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Net Income Available to PPL	\$ 33	\$ 28	\$ 95	\$ 116

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

	<u>Three Months</u>	<u>Nine Months</u>
Pennsylvania gross delivery margins	\$ 11	\$ 1
Other operation and maintenance	(7)	(32)
Depreciation	(3)	(11)
Other	2	4
Income Taxes	(2)	9
Distributions on preference stock	4	8
Total	<u>\$ 5</u>	<u>\$ (21)</u>

- 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 for the three-month period, primarily due to \$9 million of higher payroll-related costs, \$2 million of higher vegetation management costs and \$2 million of higher corporate service costs, partially offset by \$6 million of lower PUC-reportable storm costs.

Higher other operation and maintenance for the nine-month period, primarily due to \$16 million of higher payroll-related costs, \$10 million of higher vegetation management costs, \$7 million of higher corporate service costs and \$4 million of higher contractor costs, partially offset by \$13 million of lower PUC-reportable storm costs.
- Higher depreciation for the nine-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 nine-month period, primarily due to lower pre-tax income.

- Lower distributions on preference stock for the three and nine 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 other 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 effective January 1, 2013. The proposed distribution rate increase would result in a 2.9% increase over PPL Electric's total rates at the time of the request. PPL Electric's application includes a request for an authorized return-on-equity of 11.25%. On October 19, 2012, the presiding Administrative Law Judge (ALJ) issued a decision recommending a rate increase of approximately \$64 million, which represents an allowed return on equity of 9.74%. Exceptions to the ALJ's recommendation are due November 8, 2012. PPL Electric expects to file exceptions, together with certain other parties, to the ALJ's recommended decision. The PUC, which is expected to issue its order on the rate request in December 2012, can accept, reject or modify the ALJ's recommendation. PPL Electric cannot predict the outcome of this proceeding.

Earnings in 2012 and future periods 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," 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 to manage PPL Electric's operations and analyze actual results to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Pennsylvania Gross Delivery Margins" as defined by PPL Electric for the periods ended September 30.

	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	\$ 443		\$ 443	\$ 454		\$ 454
Electric revenue from affiliate	1		1	1		1
Total Operating Revenues	444		444	455		455

	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 Expenses						
Energy purchases	137		137	171		171
Energy purchases from affiliate	23		23	5		5
Other operation and maintenance	25	\$ 123	148	30	\$ 116	146
Depreciation		41	41		38	38
Taxes, other than income	23	1	24	24	2	26
Total Operating Expenses	208	165	373	230	156	386
Total	\$ 236	\$ (165)	\$ 71	\$ 225	\$ (156)	\$ 69

	2012 Nine Months			2011 Nine Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues						
Retail electric	\$ 1,303		\$ 1,303	\$ 1,444		\$ 1,444
Electric revenue from affiliate	3		3	9		9
Total Operating Revenues	1,306		1,306	1,453		1,453
Operating Expenses						
Energy purchases	410		410	591		591
Energy purchases from affiliate	61		61	15		15
Other operation and maintenance	74	\$ 357	431	77	\$ 325	402
Depreciation		119	119		108	108
Taxes, other than income	67	5	72	77	6	83
Total Operating Expenses	612	481	1,093	760	439	1,199
Total	\$ 694	\$ (481)	\$ 213	\$ 693	\$ (439)	\$ 254

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

Changes in Non-GAAP Financial Measures

The following table shows PPL Electric's non-GAAP financial measure, "Pennsylvania Gross Delivery Margins" for the periods ended September 30, as well as the change between periods. The factors that gave rise to the change are described below the table.

	Three Months			Nine Months		
	2012	2011	Change	2012	2011	Change
PA Gross Delivery Margins by Component						
Distribution	\$ 185	\$ 179	\$ 6	\$ 544	\$ 560	\$ (16)
Transmission	51	46	5	150	133	17
Total	\$ 236	\$ 225	\$ 11	\$ 694	\$ 693	\$ 1

Distribution

Margins decreased for the nine months ended September 30, 2012 compared with the same period in 2011, primarily due to an \$18 million unfavorable effect of mild weather early in 2012. The three and nine-month periods were impacted by a \$7 million charge recorded in 2011 to reduce a portion of the transmission service charge regulatory asset associated with a 2005 undercollection that was not included in any subsequent rate reconciliations filed with the PUC.

Transmission

Margins increased for the three and nine-month periods ended September 30, 2012, compared with the same periods in 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 September 30, 2012 compared with 2011 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Payroll-related costs	\$ 9	\$ 16
Contractor-related expenses	1	4
Vegetation management	2	10
PUC-reportable storm costs, net of insurance recovery	(6)	(13)
Act 129 costs	(5)	(6)
Uncollectible accounts	(1)	3
Allocation of certain corporate support group costs	2	7
Other		8
Total	<u>\$ 2</u>	<u>\$ 29</u>

Depreciation

Depreciation expense increased by \$11 million for the nine months ended September 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 decreased by \$11 million for the nine months ended September 30, 2012 compared with 2011, 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 September 30, 2012 compared with 2011 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Long-term debt interest expense	\$ 1	\$ (1)
Distributions on preference stock (a)	(4)	(8)
Amortization of debt issuance costs	(2)	1
Other		(1)
Total	<u>\$ (5)</u>	<u>\$ (9)</u>

(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 September 30, 2012 compared with 2011 was due to:

	<u>Three Months</u>	<u>Nine Months</u>
Higher (lower) pre-tax book income	\$ 1	\$ (15)
Federal and state tax reserve adjustments		1
Federal and state tax return adjustments (a)		2
Depreciation not normalized (a)		1
Other	1	2
Total	<u>\$ 2</u>	<u>\$ (9)</u>

(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:

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Cash and cash equivalents	\$ 31	\$ 320

The \$289 million decrease in PPL Electric's cash and cash equivalents position was primarily the net result of:

- capital expenditures of \$407 million;
- redemption of preference stock of \$250 million;
- a net increase in notes receivable from affiliate of \$210 million;
- the payment of \$75 million of common stock dividends to parent;
- net cash provided by operating activities of \$261 million;
- long-term debt issuance of \$249 million; and
- contributions from parent of \$150 million.

Credit Facilities

PPL Electric maintains credit facilities to provide liquidity and to backstop commercial paper issuances. At September 30, 2012, PPL Electric's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued and Commercial Paper Backstop</u>	<u>Unused Capacity</u>
Syndicated Credit Facility (a) (b)	\$ 300		\$ 1	\$ 299
Asset-backed Credit Facility (c)	100		n/a	100
Total PPL Electric Credit Facilities	\$ 400		\$ 1	\$ 399

- (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) In November 2012, PPL Electric amended its syndicated credit facility to extend the expiration date to October 2017.
- (c) 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 \$100 million from a commercial paper conduit sponsored by a financial institution. At September 30, 2012, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under the facility was \$100 million. In July 2012, PPL Electric and the subsidiary extended this agreement to September 2012 and reduced the capacity from \$150 million. In September 2012, the agreement was extended to September 2013.

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. PPL Electric had no commercial paper outstanding at September 30, 2012.

Long-term Debt and 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.

In August 2012, PPL Electric issued \$250 million of 2.50% First Mortgage Bonds due 2022. The notes may be redeemed at PPL Electric's option any time prior to maturity at make-whole redemption prices. PPL Electric received proceeds of \$247 million, net of a discount and underwriting fees. The net proceeds were used to repay short-term indebtedness incurred to fund PPL Electric's redemption of its 6.25% Series Preference Stock in June 2012 and for other general corporate purposes.

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 took the following actions related to PPL Electric:

In August 2012, Fitch assigned a rating and outlook to PPL Electric's \$250 million First Mortgage Bonds.

In August 2012, S&P and Moody's assigned a rating to PPL Electric's \$250 million First Mortgage Bonds.

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. At September 30, 2012, PPL Electric had no potential annual exposure to increased interest expense based on its current debt portfolio.

PPL Electric is also exposed to changes in the fair value of its debt portfolio. PPL Electric estimated that a 10% decrease in interest rates at September 30, 2012 would increase the fair value of its debt portfolio by \$97 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.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

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 nine months ended September 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 nine months ended September 30, 2012 was \$83 million and \$180 million compared to \$89 million and \$217 million for the same periods in 2011 representing decreases of 7% and 17% from 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 asset purchase agreement 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. LG&E will own a 22% undivided interest and KU will own a 78% undivided interest in the new NGCC. LG&E and KU commenced preliminary construction activities in the third quarter of 2012 and project construction is expected to be completed by May 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, more stringent 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.

Capital Expenditures

Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. LKE has lowered its projected environmental capital spending for the period 2012 through 2016 by approximately \$0.5 billion from the previously disclosed \$3.1 billion projection included in LKE's 2011 Form 10-K. The lower projected capital spending is based on current project evaluations and pricing contained in contracts executed to date for environmental construction projects. LKE continues to evaluate potential new generation supply sources, including self-build options and power sourced from the market, as alternatives to installing additional emission control equipment at E.W. Brown, which is jointly dispatched for LG&E and KU, and in lieu of the terminated Bluegrass CTs acquisition discussed in Notes 6 and 8 to the Financial Statements. LKE expects to complete its evaluation during the first half of 2013. The outcome of that evaluation may lead to additional changes in projected capital spending.

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, if and when necessary. 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 September 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 nine months ended September 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 September 30 was:

	Three Months		Nine Months	
	2012	2011	2012	2011
Net Income	\$ 83	\$ 89	\$ 180	\$ 217

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.

	<u>Three Months</u>	<u>Nine Months</u>
Margins	\$ (4)	\$ (22)
Other operation and maintenance	3	(12)
Depreciation	(2)	(8)
Taxes, other than income	(1)	(6)
Other	(2)	(5)
Other Income (Expense) - net	(4)	(13)
Income Taxes	4	30
Special items	(1)	(1)
Total	<u>\$ (6)</u>	<u>\$ (37)</u>

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.
- Higher other operation and maintenance for the nine-month period, primarily due to \$12 million of higher coal plant maintenance costs resulting from an increased scope of scheduled plant outages.
- Higher depreciation for the nine-month period, primarily due to PP&E additions.
- Higher taxes, other than income for the nine-month period, primarily due to an increase in property taxes resulting from property additions, higher assessed values, and changes in property classifications to categories with higher tax rates.
- Lower other income (expense) - net for the nine-month period, primarily due to losses from an equity method investment.
- Lower income taxes for the nine-month period, primarily due to lower pre-tax income.

The following after-tax gains (losses), which management considers special items, also impacted earnings during the periods ended September 30.

	Income Statement Line Item	<u>Three Months</u>		<u>Nine Months</u>	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
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 \$0, \$1, \$4, \$1 (a)	Discontinued Operations	\$ (1)		(5)	\$ (1)
Energy-related economic activity, net of tax of \$0, (\$1), \$0, \$0	Operating Revenues		1		1
Total				<u>\$ (1)</u>	

(a) The nine months ended September 30, 2012 includes an adjustment to an indemnification liability.

Outlook

Excluding special items, LKE projects lower earnings in 2012 compared with 2011 as a result of higher other operation and maintenance expense, higher depreciation, higher property taxes and losses from an equity method investment.

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. In November 2012, the KPSC issued an order for a settlement conference to begin on November 13, 2012. A hearing on the original application and subsequent testimony is scheduled to begin on November 27, 2012. LG&E and KU cannot predict the outcome of these proceedings, including the possibility of any agreed stipulations or settlement, which would remain subject to KPSC approval. A final order may be issued in December 2012 or January 2013.

Earnings in 2012 and future periods 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 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 September 30.

	2012 Three Months			2011 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 732		\$ 732	\$ 734	\$ 2	\$ 736
Operating Expenses						
Fuel	249		249	245		245
Energy purchases	27		27	32		32
Other operation and maintenance	28	\$ 158	186	26	161	187
Depreciation	13	74	87	12	72	84
Taxes, other than income		11	11		10	10
Total Operating Expenses	317	243	560	315	243	558
Total	\$ 415	\$ (243)	\$ 172	\$ 419	\$ (241)	\$ 178

	2012 Nine Months			2011 Nine Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,095		\$ 2,095	\$ 2,139	\$ 1	\$ 2,140
Operating Expenses						
Fuel	677		677	666		666
Energy purchases	135		135	179		179
Other operation and maintenance	76	\$ 513	589	67	499	566
Depreciation	39	220	259	37	212	249
Taxes, other than income		34	34		28	28
Total Operating Expenses	927	767	1,694	949	739	1,688
Total	\$ 1,168	\$ (767)	\$ 401	\$ 1,190	\$ (738)	\$ 452

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins decreased by \$22 million for the nine months ended September 30, 2012 compared with the same period in 2011, primarily due to \$16 million of lower retail margins, as volumes were impacted by unseasonably mild weather during the first four months of 2012, and \$6 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

Other operation and maintenance increased by \$23 million for the nine months ended September 30, 2012 compared with 2011, primarily due to:

- a \$13 million increase in coal plant maintenance costs, including certain amounts included in margins, primarily resulting from an increased scope of scheduled outages;
- a \$6 million credit to establish a regulatory asset was recorded in the first quarter of 2011 related to 2009 storm costs; and
- a \$3 million increase in restricted stock awards.

Depreciation

Depreciation increased by \$3 million and \$10 million for the three and nine months ended September 30, 2012 compared with 2011, primarily due to PP&E additions.

Taxes, Other Than Income

Taxes, other than income increased by \$6 million for the nine months ended September 30, 2012 compared with 2011, primarily due to an increase in property taxes resulting from property additions, higher assessed values, and changes in property classifications to categories with higher tax rates.

Other Income (Expense) - net

Other income (expense) - net decreased by \$13 million for the nine months ended September 30, 2012, compared with 2011, primarily due to \$8 million in losses from an equity method investment.

Income Taxes

Income taxes decreased by \$36 million for the nine months ended September 30, 2012, compared with 2011, primarily due to a \$68 million decrease in pre-tax income and \$9 million of 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 \$5 million for the nine months ended September 30, 2012, compared with 2011. The increase was primarily related to an adjustment to the estimated liability for indemnifications related to the termination of the WKE lease in 2009.

Financial Condition

Liquidity and Capital Resources

LKE had the following at:

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Cash and cash equivalents	\$ 90	\$ 59

The \$31 million increase in LKE's cash and cash equivalents position was primarily the net result of:

- cash provided by operating activities of \$646 million;
- capital expenditures of \$525 million; and
- distributions to member of \$95 million.

LKE's cash provided by operating activities decreased by \$37 million for the nine months ended September 30, 2012, compared with 2011, primarily due to:

- a decrease in net income of \$37 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 \$103 million (deferred income taxes and investment tax credits of \$114 million and defined benefit plans - expense of \$8 million, partially offset by depreciation of \$10 million and other noncash items of \$9 million); and
- a decrease in cash inflows related to income tax receivable of \$37 million due to fewer income tax payments received from member; partially offset by
- a decrease in cash outflows related to accrued taxes of \$49 million primarily due to the timing of property and income tax payments; and
- a decrease in cash outflows of \$93 million due to a reduction in discretionary defined benefit plan contributions.

LKE's cash used in investing activities increased by \$383 million for the nine months ended September 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 \$229 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 \$292 million for the nine months ended September 30, 2012, compared with 2011, primarily due to the issuance of long-term debt of \$250 million and a repayment on a revolving line of credit of \$163 million in 2011 and lower distributions to member of \$374 million in 2012.

Credit Facilities

At September 30, 2012, LKE's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued</u>	<u>Unused Capacity</u>
LKE Credit Facility with a subsidiary of PPL Energy Supply	\$ 300			\$ 300
LG&E Credit Facility (a)	400			400
KU Credit Facilities (a) (b)	598		\$ 198	400
Total Credit Facilities (c)	<u>\$ 1,298</u>		<u>\$ 198</u>	<u>\$ 1,100</u>

- (a) In November 2012, LG&E and KU amended the syndicated credit facility to extend the expiration dates to November 2017. In addition, LG&E increased the credit facility capacity to \$500 million.
- (b) In August 2012, the KU letter of credit facility agreement was amended and restated to allow for certain payments under the letter of credit facility to be converted to loans rather than requiring immediate payment.
- (c) 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.

Long-term Debt Securities

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

	<u>Debt</u>	
	<u>Issuances</u>	<u>Retirement</u>
Non-cash Exchanges (a)		
LKE Senior Unsecured Notes	<u>\$ 250</u>	<u>\$ (250)</u>

- (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 September 30, 2012. At September 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 \$87 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation and marketing operations, gas supply and interest rate contracts.

Risk Management

Market Risk

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 September 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 September 30, 2012, would increase the fair value of its debt portfolio by \$117 million.

At September 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	\$ (62)	\$ (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 September 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 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.

LOUISVILLE GAS AND ELECTRIC COMPANY

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 nine months ended September 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 nine months ended September 30, 2012 was \$43 million and \$94 million compared to \$43 million and \$102 million for the same periods in 2011 representing an 8% decrease from the nine-month period 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 asset purchase agreement 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. LG&E will own a 22% undivided interest and KU will own a 78% undivided interest in the new NGCC. LG&E and KU commenced preliminary construction activities in the third quarter of 2012 and project construction is expected to be completed by May 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, more stringent 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.

Capital Expenditures

Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. LG&E has lowered its projected environmental capital spending for the period 2012 through 2016 by approximately \$0.4 billion from the previously disclosed \$1.6 billion projection included in LG&E's 2011 Form 10-K. The lower projected capital spending is based on current project evaluations and pricing contained in contracts executed to date for environmental construction projects. LG&E continues to evaluate potential new generation supply sources, including self-build options and power sourced from the market, as alternatives to installing additional emission control equipment at E.W. Brown, which is jointly dispatched for LG&E and KU, and in lieu of the terminated Bluegrass CTs acquisition discussed in Notes 6 and 8 to the Financial Statements. LG&E expects to complete its evaluation during the first half of 2013. The outcome of that evaluation may lead to additional changes in projected capital spending.

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, if and when necessary. Commercial paper issuances are supported by LG&E's Syndicated Credit Facility. LG&E had no commercial paper outstanding at September 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 nine months ended September 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 September 30 was:

	<u>Three Months</u>		<u>Nine Months</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Net Income	\$ 43	\$ 43	\$ 94	\$ 102

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.

	<u>Three Months</u>	<u>Nine Months</u>
Margin	\$ (1)	\$ (5)
Other operation and maintenance	7	1
Depreciation	(1)	(4)
Taxes, other than income	(1)	(3)
Other	(4)	3
Total	<u>\$ (8)</u>	<u>\$ (8)</u>

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.
- Lower other operation and maintenance for the three-month period, due to less storm restoration and tree trimming costs, less gas operation and maintenance costs, lower bad debt expenses as a result of milder weather and improving economy and lower pension expenses.

Outlook

LG&E projects lower earnings in 2012 compared with 2011 as a result of higher other operation and maintenance expense, higher depreciation and higher property taxes.

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%. In November 2012, the KPSC issued an order for a settlement conference to begin on November 13, 2012. A hearing on the original application and subsequent testimony is scheduled to begin on November 27, 2012. LG&E cannot predict the outcome of these proceedings, including the possibility of any agreed stipulations or settlement, which would remain subject to KPSC approval. A final order may be issued in December 2012 or January 2013.

Earnings in 2012 and future periods 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 September 30.

	2012 Three Months			2011 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 333		\$ 333	\$ 339	\$ 1	\$ 340
Operating Expenses						
Fuel	100		100	98		98
Energy purchases	21		21	31		31
Other operation and maintenance	13	\$ 74	87	10	81	91
Depreciation	1	37	38	1	36	37
Taxes, other than income		6	6		5	5
Total Operating Expenses	135	117	252	140	122	262
Total	\$ 198	\$ (117)	\$ 81	\$ 199	\$ (121)	\$ 78

	2012 Nine Months			2011 Nine Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 990		\$ 990	\$ 1,034	\$ 1	\$ 1,035
Operating Expenses						
Fuel	281		281	265		265
Energy purchases	119		119	180		180
Other operation and maintenance	36	\$ 241	277	30	242	272
Depreciation	2	112	114	2	108	110
Taxes, other than income		17	17		14	14
Total Operating Expenses	438	370	808	477	364	841
Total	\$ 552	\$ (370)	\$ 182	\$ 557	\$ (363)	\$ 194

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins decreased by \$5 million during the nine months ended September 30, 2012 compared with the same period in 2011, primarily due to \$4 million of lower wholesale margins, as volumes were impacted by lower market prices. Retail margins were consistent with the prior year as increased industrial sales offset declines associated with unseasonably mild weather during the first four months of 2012. Total heating degree days decreased 28% compared to the same period in 2011.

Other Operation and Maintenance

Other operation and maintenance increased by \$5 million for the nine months ended September 30, 2012 compared with 2011, primarily due to an \$8 million increase in coal plant maintenance costs, primarily resulting from an increased scope of scheduled outages. This increase was offset by a \$2 million decrease in pension expense.

Financial Condition

Liquidity and Capital Resources

LG&E had the following at:

	September 30, 2012	December 31, 2011
Cash and cash equivalents	\$ 48	\$ 25

The \$23 million increase in LG&E's cash and cash equivalents position was primarily the net result of:

- cash provided by operating activities of \$267 million, partially offset by
- capital expenditures of \$193 million; and
- common stock dividends of \$47 million.

LG&E's cash provided by operating activities decreased by \$12 million for the nine months ended September 30, 2012, compared with 2011, primarily due to:

- a decrease in cash inflows from accounts receivable of \$26 million which is primarily the result of a decrease in accounts receivable from affiliates of \$20 million for receivables from KU for TC2 coal inventory and other shared costs and from LKE for income tax settlements; and
- a decrease in coal consumption resulting primarily 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, partially offset by a \$7 million greater decline in gas storage in comparison to 2011; partially offset by
- a decrease in cash outflows of \$42 million due to a reduction in discretionary defined benefit plan contributions.

LG&E's cash used in investing activities increased by \$221 million for the nine months ended September 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 \$66 million as a result of increased environmental spending, primarily related to landfills; and infrastructure improvements at generation, distribution and transmission facilities.

LG&E's cash used in financing activities decreased by \$183 million for the nine months ended September 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 \$8 million in 2012.

Credit Facilities

At September 30, 2012, LG&E's committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued</u>	<u>Unused Capacity</u>
Syndicated Credit Facility (a) (b)	\$ 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.
- (b) In November 2012, LG&E amended the syndicated credit facility to extend the expiration date to November 2017. In addition, LG&E increased the credit facility capacity to \$500 million.

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 September 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 program.

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 September 30, 2012. At September 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 \$62 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation and marketing operations, gas supply and interest rate contracts.

Risk Management

Market Risk

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 September 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 September 30, 2012, would increase the fair value of its debt portfolio by \$27 million.

At September 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	\$ (62)	\$ (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 September 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 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 nine months ended September 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 nine months ended September 30, 2012 was \$50 million and \$118 million compared to \$56 million and \$144 million for the same periods in 2011 representing decreases of 11% and 18% from the same periods in 2011.

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 asset purchase agreement 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. KU will own a 78% undivided interest and LG&E will own a 22% undivided interest in the new NGCC. KU and LG&E commenced preliminary construction activities in the third quarter of 2012 and project construction is expected to be completed by May 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, more stringent 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.

Capital Expenditures

Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. KU has lowered its projected environmental capital spending for the period 2012 through 2016 by approximately \$0.1 billion from the previously disclosed \$1.5 billion projection included in KU's 2011 Form 10-K. The lower projected capital spending is based on current project evaluations and pricing contained in contracts executed to date for environmental construction projects. KU continues to evaluate potential new generation supply sources, including self-build options and power sourced from the market, as alternatives to installing additional emission control equipment at E.W. Brown, which is jointly dispatched for KU and LG&E, and in lieu of the terminated Bluegrass CTs acquisition discussed in Notes 6 and 8 to the Financial Statements. KU expects to complete its evaluation during the first half of 2013. The outcome of that evaluation may lead to additional changes in projected capital spending.

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, if and when necessary. Commercial paper issuances are supported by KU's Syndicated Credit Facility. KU had no commercial paper outstanding at September 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 nine months ended September 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 September 30 was:

	<u>Three Months</u>		<u>Nine Months</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Net Income	\$ 50	\$ 56	\$ 118	\$ 144

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.

	<u>Three Months</u>	<u>Nine Months</u>
Margin	\$ (5)	\$ (17)
Other operation and maintenance	(1)	(8)
Depreciation	(2)	(5)
Other	(1)	(2)
Other Income (Expense) - net	1	(6)
Income Taxes	2	12
Total	<u>\$ (6)</u>	<u>\$ (26)</u>

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.
- Higher other operation and maintenance for the nine-month period primarily due to a \$6 million credit recorded in 2011 to establish a regulatory asset related to 2009 storm costs.
- Higher depreciation for the three and nine-month periods primarily due to PP&E additions.
- Lower other income (expense) - net for the nine-month period primarily due to losses from an equity method investment.
- Lower income taxes for the nine-month period primarily due to lower pre-tax income.

Outlook

KU projects lower earnings in 2012 compared with 2011 as a result of higher other operation and maintenance expense, higher depreciation, higher property taxes and losses from an equity method investment.

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%. In November 2012, the KPSC issued an order for a settlement conference to begin on November 13, 2012. A hearing on the original application and subsequent testimony is scheduled to begin on November 27, 2012. KU cannot predict the outcome of these proceedings, including the possibility of any agreed stipulations or settlement, which would remain subject to KPSC approval. A final order may be issued in December 2012 or January 2013.

Earnings in 2012 and future periods 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 September 30.

	2012 Three Months			2011 Three Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 411		\$ 411	\$ 419	\$ 1	\$ 420
Operating Expenses						
Fuel	149		149	147		147
Energy purchases	18		18	25		25
Other operation and maintenance	16	\$ 77	93	14	76	90
Depreciation	12	37	49	12	35	47
Taxes, other than income		5	5		5	5
Total Operating Expenses	195	119	314	198	116	314
Total	\$ 216	\$ (119)	\$ 97	\$ 221	\$ (115)	\$ 106
	2012 Nine Months			2011 Nine Months		
	Margins	Other (a)	Operating Income (b)	Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,165		\$ 1,165	\$ 1,191		\$ 1,191
Operating Expenses						
Fuel	396		396	401		401
Energy purchases	76		76	85		85
Other operation and maintenance	41	\$ 245	286	37	\$ 237	274
Depreciation	36	109	145	35	104	139
Taxes, other than income		17	17		14	14
Total Operating Expenses	549	371	920	558	355	913
Total	\$ 616	\$ (371)	\$ 245	\$ 633	\$ (355)	\$ 278

(a) Represents amounts excluded from Margins.

(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins decreased by \$5 million for the three months ended September 30, 2012 compared with the same period in 2011, primarily due to \$4 million of lower retail margins.

Margins decreased by \$17 million for the nine months ended September 30, 2012 compared with the same period in 2011, primarily due to \$16 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% as compared to the same period in 2011.

Other Operation and Maintenance

Other operation and maintenance increased by \$12 million for the nine months ended September 30, 2012 compared with 2011, primarily due to a \$6 million credit to establish a regulatory asset was recorded in the first quarter of 2011 related to 2009 storm costs, and a \$5 million increase in coal plant maintenance costs, primarily resulting from an increased scope of scheduled outages.

Depreciation

Depreciation increased by \$2 million and \$6 million for the three and nine months ended September 30, 2012 compared with 2011, primarily due to PP&E additions.

Other Income (Expense) - net

Other income (expense) - net decreased by \$6 million for the nine months ended September 30, 2012, compared with 2011, primarily due to losses from an equity method investment.

Income Taxes

Income taxes decreased by \$12 million for the nine months ended September 30, 2012, compared with 2011, primarily due to a \$38 million decrease 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:

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Cash and cash equivalents	\$ 42	\$ 31

The \$11 million increase in KU's cash and cash equivalents position was the net result of:

- cash provided by operating activities of \$410 million; partially offset by
- capital expenditures of \$331 million; and
- common stock dividends of \$68 million.

KU's cash provided by operating activities increased by \$51 million for the nine months ended September 30, 2012, compared with 2011, primarily due to:

- a decrease in cash outflows for accounts payable to affiliates of \$17 million primarily as a result of payables to LG&E for TC2 coal inventory and other shared costs, partially offset by a decrease in income tax settlements with LKE in 2011;
- a decrease in cash outflows of \$26 million due to a reduction in discretionary defined benefit plan contributions; and
- a decrease in cash outflows related to accrued taxes of \$31 million primarily due to the timing of property and income tax payments; partially offset by
- a decrease in cash inflows for accounts receivable of \$42 million due to an increase in customer receivables in 2012 resulting from increased revenues in 2012 following unseasonably mild weather in December 2011 and the timing of cash receipts and payments, and an increase in accounts receivable from affiliates balance for income tax settlements with LKE in 2012.

KU's cash used in investing activities increased by \$163 million for the nine months ended September 30, 2012, compared with 2011, due to an increase in capital expenditures of \$163 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 \$32 million for the nine months ended September 30, 2012, compared with 2011, primarily due to lower common stock dividends paid to LKE of \$20 million in 2012.

Credit Facilities

At September 30, 2012, KU's committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	<u>Committed Capacity</u>	<u>Borrowed</u>	<u>Letters of Credit Issued</u>	<u>Unused Capacity</u>
Syndicated Credit Facility (a)	\$ 400			\$ 400
Letter of Credit Facility (b)	198		\$ 198	
Total Credit Facilities (c)	\$ 598		\$ 198	\$ 400

(a) In November 2012, KU amended the syndicated credit facility to extend the expiration date to November 2017.

(b) In August 2012, the KU letter of credit facility agreement was amended and restated to allow for certain payments under the letter of credit facility to be converted to loans rather than requiring immediate payment.

(c) 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 September 30, 2012 and 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 program.

Ratings Triggers

KU has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, and commodity transportation and storage, which contain provisions requiring KU to post additional collateral, or permitting the counterparty to terminate the contract, if KU's credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at September 30, 2012. At September 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 \$25 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation and marketing operations.

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 September 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 September 30, 2012, would increase the fair value of its debt portfolio by \$70 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 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.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in each Registrant's "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

- (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 September 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 third 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 systems 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' third fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For additional information regarding various pending administrative and judicial proceedings involving regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in 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) - Supplemental Indenture No. 14, dated as of August 1, 2012, made and entered into by and between PPL Electric Utilities Corporation and The Bank of New York Mellon, as Trustee, under the Indenture dated as of August 1, 2001 (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated August 24, 2012)
- 4(b) - Supplemental Indenture No. 9, dated as of October 15, 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 October 15, 2012)
- *10(a) - Amendment No. 6 to Credit and Security Agreement, dated as of July 24, 2012, by and among PPL Receivables Corporation, as Borrower, PPL Electric Utilities Corporation, as Servicer, Victory Receivables Corporation, as a Lender, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Liquidity Bank and as Agent
- *10(b) - Amendment No. 7 to Credit and Security Agreement, dated as of September 24, 2012, by and among PPL Receivables Corporation, as Borrower, PPL Electric Utilities Corporation, as Servicer, Victory Receivables Corporation, as a Lender, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Liquidity Bank and as Agent
- *10(c) - Amendment and Restatement Agreement, dated as of August 16, 2012, to Letter of Credit Agreement, dated as of April 29, 2011, as amended, among Kentucky Utilities Company, the Borrower; the Lenders from time to time party thereto, the Lenders; Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, the Agent and Sumitomo Mitsui Banking Corporation, New York Branch, the Issuing Lender and Lender
- *12(a) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- *12(b) - PPL Energy Supply, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
- *12(c) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- *12(d) - LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- *12(e) - Louisville Gas and Electric Company Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- *12(f) - Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

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

- *31(a) - PPL Corporation's principal executive officer
- *31(b) - PPL Corporation's principal financial officer
- *31(c) - PPL Energy Supply, LLC's principal executive officer
- *31(d) - 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 September 30, 2012, furnished by the following officers for the following companies:

- *32(a) - PPL Corporation's principal executive officer and principal financial officer
 - *32(b) - PPL Energy Supply, LLC's principal executive officer and principal financial officer
 - *32(c) - PPL Electric Utilities Corporation's principal executive officer and principal financial officer
 - *32(d) - LG&E and KU Energy LLC's principal executive officer and principal financial officer
 - *32(e) - Louisville Gas and Electric Company's principal executive officer and principal financial officer
 - *32(f) - Kentucky Utilities Company's principal executive officer and 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: November 8, 2012

/s/ Vincent Sorgi

Vincent Sorgi
Vice President and Controller
(Principal Accounting Officer)

PPL Electric Utilities Corporation

(Registrant)

Date: November 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: November 8, 2012

/s/ Kent W. Blake

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

AMENDMENT NO. 6
TO THE CREDIT AND SECURITY AGREEMENT

This AMENDMENT NO. 6 TO THE CREDIT AND SECURITY AGREEMENT (this "Amendment"), dated as of July 24, 2012, is by and among PPL RECEIVABLES CORPORATION, as Borrower (the "Borrower"), PPL ELECTRIC UTILITIES CORPORATION, as Servicer (the "Servicer"), VICTORY RECEIVABLES CORPORATION ("Victory"), as a Lender, and THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., NEW YORK BRANCH, as Liquidity Bank (in such capacity, the "Liquidity Bank") and as Agent (in such capacity, the "Agent"). Capitalized terms used but not otherwise defined herein shall have the respective meanings assigned thereto in the Agreement (as defined below), including terms and definitions incorporated by reference therein.

WHEREAS, the parties hereto have entered into that certain Credit and Security Agreement, dated as of August 5, 2008 (as amended, supplemented and otherwise modified from time to time and as may be further amended, supplemented and otherwise modified from time to time, the "Agreement"); and

WHEREAS, the parties hereto desire to amend the Agreement as herein set forth;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Amendments to the Agreement. The Agreement is hereby as follows:

(a) The Liquidity Bank's Commitment is hereby reduced to \$100,000,000, and after giving effect to such reduction, the Aggregate Commitment will be \$100,000,000.

(b) The definition of "Facility Termination Date" set forth in Exhibit I of the Agreement is amended by replacing the date "July 24, 2012" where it appears in clause (iii) thereof with the date "September 24, 2012".

SECTION 2. Representations and Warranties of the Originator. Each of the Borrower and the Servicer, as to itself, hereby represents and warrants to Victory, the Liquidity Bank and the Agent as follows:

2.1 The representations and warranties of such Person contained in Article V of the Agreement (as amended hereby) are true and correct as of the date hereof (unless stated to relate solely to an earlier date, in which case such representations and warranties were true and correct as of such earlier date).

2.2 This Amendment and the Agreement (as amended hereby) constitute the legal, valid and binding obligation of such Person enforceable against such Person in accordance with their respective terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally and to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION 3. Conditions to Effectiveness. This Amendment shall become effective as of the date hereof upon receipt by the Agent of counterparts of this Amendment executed by each of the parties hereto.

SECTION 4. Effect of Amendment; Ratification. Except as specifically amended hereby, the Agreement is hereby ratified and confirmed in all respects, and all of its provisions shall remain in full force and effect. After this Amendment becomes effective, all references in the Agreement (or in any other Transaction Document) to "this Agreement", "hereof", "herein", or words of similar effect, in each case referring to the Agreement, shall be deemed to be references to the Agreement as amended hereby. This Amendment shall not be deemed to expressly or impliedly waive, amend, or supplement any provision of the Agreement other than as specifically set forth herein.

SECTION 5. Counterparts; Delivery. This Amendment may be executed in any number of counterparts and by different parties on separate counterparts, and each counterpart shall be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile or other electronic means shall be effective as delivery of a manually executed counterpart of this Amendment.

SECTION 6. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (INCLUDING SECTIONS 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK BUT OTHERWISE WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES).

SECTION 7. Section Headings. The various headings of this Amendment are inserted for convenience only and shall not affect the meaning or interpretation of this Amendment or the Agreement or any provision hereof or thereof.

[Signature pages follow.]



IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date first written above.

PPL RECEIVABLES CORPORATION,
as Borrower

By: _____
Name:
Title:

PPL ELECTRIC UTILITIES CORPORATION,
as Servicer

By: _____
Name:
Title:

*Amendment No.6 to the Credit
and Security Agreement*

VICTORY RECEIVABLES CORPORATION,
as Lender

By: _____
Name:
Title:

*Amendment No.6 to the Credit
and Security Agreement*

THE BANK OF TOKYO-MITSUBISHI UFJ.
LTD., NEW YORK BRANCH, as a Liquidity Bank

By: _____
Name:
Title:

THE BANK OF TOKYO-MITSUBISHI UFJ.
LTD., NEW YORK BRANCH, as Agent

By: _____
Name:
Title:

*Amendment No.6 to the Credit
and Security Agreement*

AMENDMENT NO. 7
TO THE CREDIT AND SECURITY AGREEMENT

This AMENDMENT NO. 7 TO THE CREDIT AND SECURITY AGREEMENT (this “Amendment”), dated as of September 24, 2012, is by and among PPL RECEIVABLES CORPORATION, as Borrower (the “Borrower”), PPL ELECTRIC UTILITIES CORPORATION, as Servicer (the “Servicer”), VICTORY RECEIVABLES CORPORATION (“Victory”), as a Lender, and THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., NEW YORK BRANCH, as Liquidity Bank (in such capacity, the “Liquidity Bank”) and as Agent (in such capacity, the “Agent”). Capitalized terms used but not otherwise defined herein shall have the respective meanings assigned thereto in the Agreement (as defined below), including terms and definitions incorporated by reference therein.

WHEREAS, the parties hereto have entered into that certain Credit and Security Agreement, dated as of August 5, 2008 (as amended, supplemented and otherwise modified from time to time and as may be further amended, supplemented and otherwise modified from time to time, the “Agreement”);

WHEREAS, in connection with this Amendment, the parties hereto are entering into a fourth amended and restated Fee Letter, dated as of the date hereof (the “A&R Fee Letter”); and

WHEREAS, the parties hereto desire to amend the Agreement as herein set forth;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Amendments to the Agreement. The Agreement is hereby amended as follows:

(a) Section 10.2 of the Agreement is amended and restated as follows:

Section 10.2 If after the date hereof, any Regulatory Change: (a) subjects Victory or any Funding Source to any charge or withholding on or with respect to any Funding Agreement or Victory’s or a Funding Source’s obligations under a Funding Agreement, or on or with respect to the Receivables, or changes the basis of taxation of payments to Victory or any Funding Source of any amounts payable under any Funding Agreement (except for changes in the rate of tax on the overall net income of Victory or a Funding Source or taxes excluded by Section 10.1) or (b) imposes, modifies or deems applicable any reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of Victory or a Funding Source, or credit extended by Victory or a Funding Source pursuant to a Funding Agreement or (c) imposes any other condition, in any case, the result of which is to (i) increase the cost to Victory or a Funding Source of performing its obligations under a Funding Agreement, (ii) reduce the rate of return on Victory’s or a Funding Source’s capital as a consequence of its obligations under a Funding Agreement, (iii) reduce the amount of any sum received or receivable by Victory or a Funding Source under a Funding Agreement, or (iv) require any payment calculated by reference to the amount of interests or loans held or interest received by it, then, upon demand by the Agent, Borrower shall pay to the Agent, for the benefit of Victory or the relevant Funding Source, as the case may be, such amounts charged to Victory or such Funding Source or such amounts to otherwise compensate Victory or such Funding Source for such increased cost, reduction or payment, as the case may be.

(b) The definition of “Governmental Authority” set forth in Exhibit I of the Agreement is amended and restated as follows:

Governmental Authority means the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

(c) The definition of “Facility Termination Date” set forth in Exhibit I of the Agreement is amended by replacing the date “September 24, 2012” where it appears in clause (iii) thereof with the date “September 23, 2013”.

(d) The definition of “Defaulted Receivable” set forth in Exhibit I of the Agreement is amended by replacing the number “91” where it appears therein with the number “120”.

(e) The definition of “Regulatory Change” set forth in Exhibit I of the Agreement is amended and restated as follows:

Regulatory Change means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any Governmental Authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any Governmental Authority; provided that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a “Regulatory Change”, regardless of the date enacted, adopted or issued.

SECTION 2. Representations and Warranties of the Originator. Each of the Borrower and the Servicer, as to itself, hereby represents and warrants to Victory, the Liquidity Bank and the Agent as follows:

2.1 The representations and warranties of such Person contained in Article V of the Agreement (as amended hereby) are true and correct as of the date hereof (unless stated to relate solely to an earlier date, in which case such representations and warranties were true and correct as of such earlier date).

2.2 This Amendment and the Agreement (as amended hereby) constitute the legal, valid and binding obligation of such Person enforceable against such Person in accordance with their respective terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally and to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION 3. Conditions to Effectiveness. This Amendment shall become effective as of the date hereof upon receipt by the Agent of the following:

3.1 counterparts of this Amendment executed by each of the parties hereto;

3.2 counterparts of the A&R Fee Letter executed by each of the parties thereto; and

3.3 payment in full of the renewal fee payable pursuant to the A&R Fee Letter in accordance with the terms thereof.

SECTION 4. Effect of Amendment; Ratification. Except as specifically amended hereby, the Agreement is hereby ratified and confirmed in all respects, and all of its provisions shall remain in full force and effect. After this Amendment becomes effective, all references in the Agreement (or in any other Transaction Document) to "this Agreement", "hereof", "herein", or words of similar effect, in each case referring to the Agreement, shall be deemed to be references to the Agreement as amended hereby. This Amendment shall not be deemed to expressly or impliedly waive, amend, or supplement any provision of the Agreement other than as specifically set forth herein.

SECTION 5. Counterparts; Delivery. This Amendment may be executed in any number of counterparts and by different parties on separate counterparts, and each counterpart shall be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile or other electronic means shall be effective as delivery of a manually executed counterpart of this Amendment.

SECTION 6. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (INCLUDING SECTIONS 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK BUT OTHERWISE WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES).

SECTION 7. Section Headings. The various headings of this Amendment are inserted for convenience only and shall not affect the meaning or interpretation of this Amendment or the Agreement or any provision hereof or thereof.

[Signature pages follow.]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date first written above.

PPL RECEIVABLES CORPORATION,
as Borrower

By: _____
Name:
Title:

PPL ELECTRIC UTILITIES CORPORATION,
as Servicer

By: _____
Name:
Title:

*Amendment No.7 to the Credit
and Security Agreement*

VICTORY RECEIVABLES CORPORATION,
as Lender

By: _____
Name:
Title:

*Amendment No.7 to the Credit
and Security Agreement*

THE BANK OF TOKYO-MITSUBISHI UFJ.
LTD., NEW YORK BRANCH, as a Liquidity Bank

By: _____
Name:
Title:

THE BANK OF TOKYO-MITSUBISHI UFJ.
LTD., NEW YORK BRANCH, as Agent

By: _____
Name:
Title:

*Amendment No.7 to the Credit
and Security Agreement*

AMENDMENT AND RESTATEMENT AGREEMENT

AMENDMENT AND RESTATEMENT AGREEMENT, dated as of August 16, 2012 (this “ **Amendment and Restatement Agreement** ”), to the Letter of Credit Agreement dated as of April 29, 2011, as amended pursuant to Amendment No. 1 to Letter of Credit Agreement, dated as of August 2, 2011 (the “ **Original Letter of Credit Agreement** ”) among KENTUCKY UTILITIES COMPANY (the “ **Borrower** ”), the LENDERS from time to time party thereto (the “ **Lenders** ”), BANCO BILBAO VIZCAYA ARGENTARIA, S.A., NEW YORK BRANCH, as Administrative Agent and Lender (the “ **Agent** ”) and SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH, as Issuing Lender and Lender (“ **SMBC** ”). Capitalized terms used herein and not otherwise defined herein have the meanings assigned to them in the Amended Letter of Credit Agreement (as defined below).

RECITALS:

WHEREAS, the parties to the Original Letter of Credit Agreement desire to add a loan facility thereto pursuant to the terms and conditions set forth in the Amended Letter of Credit Agreement;

WHEREAS, in order to effect the foregoing, the parties hereto desire to amend and restate the Original Letter of Credit Agreement as of the Amendment and Restatement Effective Date, and to enter into certain other agreements herein, in each case subject to the terms and conditions set forth herein;

NOW THEREFORE, in consideration of the mutual conditions and agreements set forth in the Amended Letter of Credit Agreement and this Amendment and Restatement Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1 . *Amendment and Restatement of the Original Letter of Credit Agreement.* Effective as of the Amendment and Restatement Effective Date:

(a) the Original Letter of Credit Agreement is hereby amended and restated in its entirety in the form of the Amended and Restated Letter of Credit Agreement set forth as Annex A hereto (the Original Letter of Credit Agreement, as so amended and restated, the “ **Amended Letter of Credit Agreement** ”); and

(b) (i) Exhibits A, B and D to the Original Letter of Credit Agreement are hereby amended and restated in their entirety as set forth in Exhibits A, B and D hereto, respectively, and (ii) Exhibit C is hereby deleted in its entirety.

Except as set forth above, all the appendices and exhibits to the Original Letter of Credit Agreement, in the forms thereof immediately prior to the Amendment and Restatement Effective Date, will continue to be appendices and exhibits to the Amended Letter of Credit Agreement.

Section 2 . *Amendments of Reimbursement Agreements.* The Borrower and SMBC each hereby agree that each of the (a) Reimbursement Agreement, dated as of

May 2, 2011, with respect to the \$13,059,041.10 Letter of Credit issued by SMBC to The Bank of New York Mellon, (b) Reimbursement Agreement, dated as of May 2, 2011, with respect to the \$50,863,013.70 Letter of Credit issued by SMBC to U.S. Bank National Association, (c) Reimbursement Agreement, dated as of May 2, 2011, with respect to the \$54,998,630.14 Letter of Credit issued by SMBC to Deutsche Bank Trust Company Americas and (d) Reimbursement Agreement, dated as of May 2, 2011, with respect to the \$79,388,898.11 Letter of Credit issued by SMBC to Deutsche Bank Trust Company Americas, in each case between the Borrower and SMBC (each, an “**SMBC Reimbursement Agreement**”) shall be amended as follows:

(a) The introductory paragraph of each SMBC Reimbursement Agreement is hereby amended and restated in its entirety as follows:

Reference is hereby made to the \$198,309,583.05 Amended and Restated Letter of Credit Agreement (as amended, amended and restated, supplemented or modified from time to time, the “**Letter of Credit Agreement**”) dated as of August 16, 2012, among Kentucky Utilities Company (the “**Borrower**”), the lending institutions party thereto from time to time, Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, as Administrative Agent and Sumitomo Mitsui Banking Corporation, New York Branch, as Issuing Lender. Terms used herein and not otherwise defined herein have, as used herein, the respective meanings provided for in Section 18.

(b) Section 3 of each SMBC Reimbursement Agreement is hereby amended by inserting the term (i) “and Repayment of Loans Under the Letter of Credit Agreement” immediately following the term “Letter of Credit” in the heading thereof, (ii) “or make a Loan under the Credit Agreement” immediately following the term “Letter of Credit” in the third line of clause (a) thereof, (iii) “or repay the full amount of such Loan” immediately following the term “such Drawing” in the third line of clause (a) thereof, (iv) “or Section 2.11, as applicable,” immediately following the term “Section 3.07” in the fourth line of clause (a) thereof, (v) “(or the obligations of the Borrower to repay any Loan made in respect thereof)” immediately following the term “any Liquidity Drawing” in the ninth line of clause (b) thereof, (vi) “or to repay such Loan” immediately following the term “such Drawing” in the eleventh line of clause (b) thereof and (vii) “(or upon the repayment or any Loan made in respect thereof)” immediately following the term “any Liquidity Drawing” in the first line of clause (c) thereof.

(b) Section 18 of each SMBC Reimbursement Agreement is hereby amended by adding the following defined term in its appropriate alphabetical order:

“**Loans**” means “Loans” as defined in the Letter of Credit Agreement.

Section 3. Effect of Amendment. On and after the Amendment and Restatement Date, (i) each reference to “this Agreement”, “hereof”, “hereunder”, “herein” and “hereby” and each other similar reference contained in the Original Letter of Credit Agreement, and each reference to “the Letter of Credit Agreement”, “thereof”, “thereunder”, “therein” and “thereby” and each other similar reference to the Original Letter of Credit Agreement contained in any other Loan Document shall be deemed a reference to the Amended Letter of Credit Agreement and (ii) each reference to “this Agreement”, “hereof”, “hereunder”, “herein” and “hereby” and each other similar

reference contained in each SMBC Reimbursement Agreement, and each reference to “the Reimbursement Agreement”, “thereof”, “thereunder”, “therein” and “thereby” and each other similar reference to such SMBC Reimbursement Agreement contained in any other Loan Document shall be deemed a reference to such SMBC Reimbursement Agreement as amended hereby. This Amendment and Restatement Agreement shall constitute a “Loan Document” for all purposes of the Amended Letter of Credit Agreement and the other Loan Documents.

Section 4 . *Governing Law.* This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

Section 5 . *Full Force and Effect ; Ratification .*

(a) Except as expressly set forth herein or in the Amended Letter of Credit Agreement, this Amendment and Restatement Agreement shall not by implication or otherwise limit, impair, constitute a waiver of or otherwise affect the rights and remedies of the Lenders, the Administrative Agent or the Issuing Lenders under the Amended Letter of Credit Agreement or any other Loan Document, and shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Original Letter of Credit Agreement or any other provision of the Original Letter of Credit Agreement or of any other Loan Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect.

(b) Except as expressly set forth herein, this Amendment and Restatement Agreement shall not by implication or otherwise limit, impair, constitute a waiver of or otherwise affect the rights and remedies of SMBC under the SMBC Reimbursement Agreements, and shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the SMBC Reimbursement Agreements or any other provision of the SMBC Reimbursement Agreements, all of which are ratified and affirmed in all respects and shall continue in full force and effect.

(c) This Amendment and Restatement Agreement constitutes the entire and final agreement among the parties hereto with respect to the subject matter hereof and there are no other agreements, understandings, undertakings, representations or warranties among the parties hereto with respect to the subject matter hereof except as set forth herein.

Section 6 . *Counterparts.* This Amendment and Restatement 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.

Section 7 . *Effectiveness.* This Amendment and Restatement Agreement shall become effective on the date when the Administrative Agent shall have received from each of the Borrower and the Lenders a counterpart hereof signed by such party or facsimile or other written confirmation (in form satisfactory to the Administrative Agent) that such party has signed a counterpart hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment and Restatement Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

KENTUCKY UTILITIES COMPANY

By: /s/ Daniel K. Arbough
Name: Daniel K. Arbough
Title: Treasurer

[Signature Page to Amendment and Restatement Agreement]

BANCO BILBAO VIZCAYA
ARGENTARIA, S.A., NEW YORK
BRANCH, as Administrative Agent and Lender

By: /s/ Nietzsche Rodricks
Name: Nietzsche Rodricks
Title: Executive Director

By: /s/ Michael D'Anna
Name: Michael D'Anna
Title: Executive Director

[Signature Page to Amendment and Restatement Agreement]

SUMITOMO MITSUI BANKING
CORPORATION, NEW YORK
BRANCH, as Issuing Lender and Lender

By: /s/ Yasuhiro Shirai
Name: Yasuhiro Shirai
Title: Managing Director

[Signature Page to Amendment and Restatement Agreement]

\$198,309,583.05

AMENDED AND RESTATED LETTER OF CREDIT AGREEMENT

dated as of August 16, 2012

among

KENTUCKY UTILITIES COMPANY,

THE LENDERS FROM TIME TO TIME PARTY HERETO

and

BANCO BILBAO VIZCAYA ARGENTARIA, S.A., NEW YORK BRANCH,

as Administrative Agent

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Exhibits:

Exhibit A	-	Form of Reimbursement Agreement
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Exhibit D	-	Form of Letter of Credit Request

AMENDED AND RESTATED LETTER OF CREDIT AGREEMENT (this “Agreement”), dated as of August 16, 2012, is entered into among KENTUCKY UTILITIES COMPANY, a Kentucky corporation and a Virginia corporation (the “Borrower”), the LENDERS party hereto from time to time, BANCO BILBAO VIZCAYA ARGENTARIA, S.A., NEW YORK BRANCH, as Administrative Agent and SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH, as Issuing Lender (“SMBC”). The parties hereto agree as follows:

RECITALS

WHEREAS, pursuant to that certain Letter of Credit Agreement, dated as of April 29, 2011 (as amended pursuant to that certain Amendment No. 1 to Letter of Credit Agreement, dated as of August 2, 2011, the “Original Letter of Credit Agreement”), among the Borrower, the Lenders party thereto, the Administrative Agent and SMBC, the Borrower requested that the Lenders provide, and the Lenders agreed to provide, a senior unsecured letter of credit facility in an aggregate amount of \$198,309,583.05, on the terms and conditions set forth therein.

WHEREAS, pursuant to the Amendment and Restatement Agreement, the Borrower, the Administrative Agent and SMBC have agreed to amend and restate the Original Letter of Credit Agreement.

NOW THEREFORE, in consideration of the mutual conditions and agreements set forth in the Amendment and Restatement Agreement and this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree to amend and restate the Original Letter of Credit Agreement, and the Original Letter of Credit Agreement is hereby amended and restated, in its entirety as follows:

ARTICLE I DEFINITIONS

Section 1.01. **Definitions** . All capitalized terms used in this Agreement or in any Appendix, Schedule or Exhibit hereto which are not otherwise defined herein or therein shall have the respective meanings set forth below.

“Administrative Agent” or “Agent” means Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, in its capacity as administrative agent for the Lenders hereunder and under the other Loan Documents, and its successor or successors in such capacity.

“Administrative Questionnaire” means, with respect to each Lender, an administrative questionnaire in the form provided by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Lender.

“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.

“ Agreement ” has the meaning set forth in the introductory paragraph hereto, as this Agreement may be amended, amended and restated, supplemented or modified from time to time.

“ Amendment and Restatement Agreement ” means the Amendment and Restatement Agreement, dated as of the Amendment and Restatement Effective Date, among the Borrower, the Lenders party thereto, the Administrative Agent and SMBC.

“ Amendment and Restatement Effective Date ” means August 16, 2012.

“ Applicable Lending Office ” means, with respect to any Lender, its office located at the address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Applicable Lending Office) or such other office as such Lender may hereafter designate as its Applicable Lending Office by notice to the Borrower and the Administrative Agent.

“ Applicable Percentage ” means, for purposes of calculating the applicable rate for the Facility Fee for any day for purposes of Section 2.03(a), the appropriate applicable percentage set forth below corresponding to the then current highest Borrower’s Ratings; provided, that, in the event that the Borrower’s Ratings shall fall within different levels and ratings are maintained by both Rating Agencies, the applicable rating shall be based on the higher of the two ratings unless one of the ratings is two or more levels lower than the other, in which case the applicable rating shall be determined by reference to the level one rating lower than the higher of the two ratings:

	Borrower’s Ratings (S&P /Moody’s)	Applicable Percentage for Facility Fees
Category A	≥ A from S&P / A2 from Moody’s	1.000%
Category B	≥ A- from S&P / A3 from Moody’s	1.100%
Category C	BBB+ from S&P / Baa1 from Moody’s	1.200%
Category D	BBB from S&P / Baa2 from Moody’s	1.325%
Category E	BBB- from S&P / Baa3 from Moody’s	1.500%
Category F	≤BB+ from S&P / Ba1 from Moody’s	1.625%

“ Asset Sale ” shall mean any sale of any assets, including by way of the sale by the Borrower or any of its Subsidiaries of equity interests in such Subsidiaries.

“ Assignee ” has the meaning set forth in Section 9.06(c).

“ Assignment and Assumption Agreement ” means an Assignment and Assumption Agreement, substantially in the form of attached Exhibit B, under which an interest of a Lender hereunder is transferred to an Eligible Assignee pursuant to Section 9.06(c).

“ Available Amount ” has the meaning set forth in the applicable Letter of Credit.

“ Availability Period ” means the period from and including the Effective Date to but excluding the Termination Date.

“ Bankruptcy Code ” means the Bankruptcy Reform Act of 1978, as amended, or any successor statute.

“ Base Rate ” means for any day a rate per annum equal to the highest of (i) the Prime Rate for such day, (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day and (iii) LIBOR Market Index Rate for such day plus 1%.

“ Bond Indenture ” has the meaning set forth in the applicable Reimbursement Agreement.

“ Borrower ” has the meaning set forth in the introductory paragraph hereto.

“ Borrower’s Rating ” means the rating that is one notch below the senior secured long-term debt rating of the Borrower from S&P or Moody’s.

“ Business Day ” means any day except a Saturday, Sunday or other day on which commercial banks in New York, New York are authorized by law to close; provided, that, when used in Article III with respect to any action taken by or with respect to any Issuing Lender, the term “Business Day” shall not include any day on which commercial banks are authorized by law to close in the jurisdiction where the office at which such Issuing Lender books any Letter of Credit is located.

“ Capital Lease ” means any lease of property which, in accordance with GAAP, should be capitalized on the lessee’s balance sheet.

“ Capital Lease Obligations ” means, with respect to any Person, all obligations of such Person as lessee under Capital Leases, in each case taken at the amount thereof accounted for as liabilities in accordance with GAAP.

“ Change of Control ” means (i) the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of voting stock of PPL Corporation or its successors or (ii) the failure at any time of PPL Corporation or its successors to own 80% or more of the outstanding shares of the Voting Stock in the Borrower.

“ Commitment ” means, with respect to any Lender, the commitment of such Lender to purchase participations in Letters of Credit and Loans pursuant to Article III hereof, as set forth in the Commitment Appendix and as such Commitment may be reduced from time to

time pursuant to Section 2.04 or Section 9.06(c) or increased from time to time pursuant to Section 9.06(c).

“ Commitment Appendix ” means the Appendix attached under this Agreement identified as such.

“ Commitment Ratio ” shall mean, with respect to any Lender, the percentage equivalent of the ratio which such Lender’s Commitment bears to the aggregate amount of all Commitments.

“ Consolidated Capitalization ” shall mean the sum of, without duplication, (A) the Consolidated Debt (without giving effect to clause (b) of the definition of “Consolidated Debt”) and (B) the consolidated shareowners’ equity (determined in accordance with GAAP) of the common, preference and preferred shareowners of the Borrower and minority interests recorded on the Borrower’s consolidated financial statements (excluding from shareowner’s equity (i) the effect of all unrealized gains and losses reported under Financial Accounting Standards Board Accounting Standards Codification Topic 815 in connection with (x) forward contracts, futures contracts, options contracts or other derivatives or hedging agreements for the future delivery of electricity, capacity, fuel or other commodities and (y) Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements and (ii) the balance of accumulated other comprehensive income/loss of the Borrower on any date of determination solely with respect to the effect of any pension and other post-retirement benefit liability adjustment recorded in accordance with GAAP), except that for purposes of calculating Consolidated Capitalization of the Borrower, Consolidated Debt of the Borrower shall exclude Non-Recourse Debt and Consolidated Capitalization of the Borrower shall exclude that portion of shareowners’ equity attributable to assets securing Non-Recourse Debt.

“ Consolidated Debt ” means the consolidated Debt of the Borrower and its Consolidated Subsidiaries (determined in accordance with GAAP), except that for purposes of this definition (a) Consolidated Debt shall exclude Non-Recourse Debt of the Borrower and its Consolidated Subsidiaries, and (b) Consolidated Debt shall exclude (i) Hybrid Securities of the Borrower and its Consolidated Subsidiaries in an aggregate amount as shall not exceed 15% of Consolidated Capitalization and (ii) Equity-Linked Securities in an aggregate amount as shall not exceed 15% of Consolidated Capitalization.

“ Consolidated Subsidiary ” means with respect to any Person at any date any Subsidiary of such Person or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date in accordance with GAAP.

“ Continuing Lender ” means with respect to any event described in Section 2.04(b), a Lender which is not a Retiring Lender, and “Continuing Lenders” means any two or more of such Continuing Lenders.

“ Corporation ” means a corporation, association, company, joint stock company, limited liability company, partnership or business trust.

“Credit Event” means the issuance, renewal or extension of a Letter of Credit or the making of a Loan.

“Custody Agreement” means a Custody Agreement as defined in and entered into pursuant to a Reimbursement Agreement in connection with the issuance of a Letter of Credit hereunder.

“Custody Bonds” has the meaning set forth in the applicable Reimbursement Agreement.

“Debt” of any Person means, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all Guarantees by such Person of Debt of others, (iv) all Capital Lease Obligations and Synthetic Leases of such Person, (v) all obligations of such Person in respect of Interest Rate Protection Agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the net amount that would be payable upon the acceleration, termination or liquidation thereof), but only to the extent that such net obligations exceed \$75,000,000 in the aggregate and (vi) all obligations of such Person as an account party in respect of letters of credit and bankers’ acceptances; provided, however, that “Debt” of such Person does not include (a) obligations of such Person under any installment sale, conditional sale or title retention agreement or any other agreement relating to obligations for the deferred purchase price of property or services, (b) obligations under agreements relating to the purchase and sale of any commodity, including any power sale or purchase agreements, any commodity hedge or derivative (regardless of whether any such transaction is a “financial” or physical transaction), (c) any trade obligations or other obligations of such Person incurred in the ordinary course of business or (d) obligations of such Person under any lease agreement (including any lease intended as security) that is not a Capital Lease or a Synthetic Lease.

“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.

“Defaulting Lender” means at any time any Lender with respect to which a Lender Default is in effect at such time.

“Dollars” and the sign “\$” means lawful money of the United States of America.

“Effective Date” means April 29, 2011.

“Eligible Assignee” means (i) a Lender; (ii) a commercial bank organized under the laws of the United States and having a combined capital and surplus of at least \$100,000,000; (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of any such country, and having a combined capital and surplus of at least \$100,000,000; provided, that such bank is acting through a branch or agency located and licensed in the United States; or (iv) an Affiliate of a Lender that is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended); provided, that, in each case (a) upon and following the

occurrence of an Event of Default, an Eligible Assignee shall mean any Person other than the Borrower or any of its Affiliates and (b) notwithstanding the foregoing, "Eligible Assignee" shall not include the Borrower or any of its Affiliates.

"Environmental Laws" means any and all federal, state and local statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses or other written governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or Hazardous Substances or wastes.

"Environmental Liabilities" means all liabilities (including anticipated compliance costs) in connection with or relating to the business, assets, presently or previously owned, leased or operated property, activities (including, without limitation, off-site disposal) or operations of the Borrower or any of its Subsidiaries which arise under Environmental Laws.

"Equity-Linked Securities" means any securities of the Borrower or any of its Subsidiaries which are convertible into, or exchangeable for, equity securities of the Borrower, such Subsidiary or PPL Corporation, including any securities issued by any of such Persons which are pledged to secure any obligation of any holder to purchase equity securities of the Borrower, any of its Subsidiaries or PPL Corporation.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

"ERISA Group" means the Borrower and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414(b) or (c) of the Internal Revenue Code.

"Event of Default" has the meaning set forth in Section 7.01.

"Existing Credit Agreement" means that certain Revolving Credit Agreement, dated as of November 1, 2010, among the Borrower, the lenders from time to time party thereto and Wells Fargo Bank, National Association, as administrative agent, as amended, restated, supplemented, replaced or otherwise modified from time to time.

"Existing Pollution Control Bonds" means the tax-exempt pollution control bonds of the following series issued on behalf of the Borrower: (i) the County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2008 Series A (Kentucky Utilities Company Project), (ii) the County of Carroll, Kentucky, Environmental Facilities Revenue Refunding Bonds, 2006 Series B (Kentucky Utilities Company Project), (iii) the County of Carroll, Kentucky, Environmental Facilities Revenue Bonds, 2004 Series A (Kentucky Utilities Company Project) and (iv) the County of Mercer, Kentucky, Solid Waste Disposal Facility Revenue Bonds, 2000 Series A (Kentucky Utilities Company Project).

“ Facility Fee ” has the meaning set forth in Section 2.03(a).

“ FATCA ” means Sections 1471 through 1474 of the Internal Revenue Code as of the date hereof (or any amended or successor version that is substantially comparable) and any current or future 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 the Administrative Agent from three federal funds brokers of recognized standing selected by the Administrative Agent.

“ Fee Letter ” means, collectively, the (i) mandate letter dated as of March 25, 2011 among the Borrower and the Administrative Agent and (ii) administrative agency fee letter dated as of April 29, 2011 among the Borrower and the Administrative Agent, each as amended, modified or supplemented from time to time.

“ FERC ” means the Federal Energy Regulatory Commission.

“ Fronting Fee ” has the meaning set forth in Section 2.03(a).

“ 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 ” of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or to purchase (or to advance or supply funds for the purchase of) any security for payment of such Debt, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt of the payment of such Debt or (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt; provided, however, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“ Hazardous Substances ” means any toxic, caustic or otherwise hazardous substance, including petroleum, its derivatives, by-products and other hydrocarbons, or any substance having any constituent elements displaying any of the foregoing characteristics.

“ Hybrid Securities ” means any trust preferred securities, or deferrable interest subordinated debt with a maturity of at least 20 years issued by the Borrower, or any business trusts, limited liability companies, limited partnerships (or similar entities) (i) all of the common equity, general partner or similar interests of which are owned (either directly or indirectly through one or more Wholly Owned Subsidiaries) at all times by the Borrower or any of its Subsidiaries, (ii) that have been formed for the purpose of issuing hybrid preferred securities and (iii) substantially all the assets of which consist of (A) subordinated debt of the Borrower or a Subsidiary of the Borrower, as the case may be, and (B) payments made from time to time on the subordinated debt.

“ Indemnitee ” has the meaning set forth in Section 9.03(b).

“ Interest Rate Protection Agreements ” means any agreement providing for an interest rate swap, cap or collar, or any other financial agreement designed to protect against fluctuations in interest rates.

“ Internal Revenue Code ” means the Internal Revenue Code of 1986, as amended, or any successor statute.

“ Issuing Lender ” means (i) SMBC, in its capacity as an issuer of Letters of Credit under Section 3.02, and its respective successor or successors in such capacity and (ii) any other Lender approved as an “Issuing Lender” pursuant to Section 3.01.

“ KPSC ” means the Kentucky Public Service Commission.

“ Lender ” means each bank or other lending institution listed in the Commitment Appendix as having a Commitment, each Eligible Assignee that becomes a Lender pursuant to Section 9.06(c) and their respective successors and shall include, as the context may require, each Issuing Lender in such capacity.

“ Lender Default ” means (i) the failure (which has not been cured) of any Lender to make available any reimbursement for a drawing under a Letter of Credit or a Loan within one Business Day from the date it is obligated to make such amount available under the terms and conditions of this Agreement or (ii) a Lender having notified, in writing, the Administrative Agent and the Borrower that such Lender does not intend to comply with its obligations under Article II following the appointment of a receiver or conservator with respect to such Lender at the direction or request of any regulatory agency or authority.

“ Letter of Credit ” means each letter of credit issued pursuant to Section 3.02 by an Issuing Lender.

“ Letter of Credit Liabilities ” means, for any Lender at any time, the product derived by multiplying (i) the sum, without duplication, of (A) the aggregate amount that is (or may thereafter become) available for drawing under all Letters of Credit outstanding at such time

plus (B) the aggregate unpaid amount of all Reimbursement Obligations outstanding at such time by (ii) such Lender's Commitment Ratio.

“Letter of Credit Request” has the meaning set forth in Section 3.03.

“LIBOR Market Index Rate” means, for any day, the rate for 1 month U.S. dollar deposits as reported on Reuters Screen LIBOR01 as of 11:00 a.m., London time, for such day, provided, if such day is not a London Business Day, the immediately preceding London Business Day (or if not so reported, then as determined by the Administrative Agent from another recognized source or interbank quotation).

“Lien” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance intended to confer or having the effect of conferring upon a creditor a preferential interest.

“Liquidity Drawings” has the meaning set forth in the applicable Letter of Credit.

“Loan Documents” means this Agreement, each Reimbursement Agreement and the Custody Agreement.

“Loans” has the meaning set forth in Section 2.11(a).

“London Business Day” means a day on which commercial banks are open for international business (including dealings in Dollar deposits) in London.

“Mandatory Letter of Credit Borrowing” has the meaning set forth in Section 3.09.

“Margin Stock” means “margin stock” as such term is defined in Regulation U.

“Material Adverse Effect” means (i) any material adverse effect upon the business, assets, financial condition or operations of the Borrower or the Borrower and its Subsidiaries, taken as a whole; (ii) a material adverse effect on the ability of the Borrower to perform its obligations under this Agreement or the other Loan Documents or (iii) a material adverse effect on the validity or enforceability of this Agreement or any of the other Loan Documents.

“Material Debt” means Debt (other than Debt under the Loan Documents) of the Borrower in a principal or face amount exceeding \$50,000,000.

“Material Plan” means at any time a Plan or Plans having aggregate Unfunded Liabilities in excess of \$50,000,000. For the avoidance of doubt, where any two or more Plans, which individually do not have Unfunded Liabilities in excess of \$50,000,000, but collectively have aggregate Unfunded Liabilities in excess of \$50,000,000, all references to Material Plan shall be deemed to apply to such Plans as a group.

“Moody's” means Moody's Investors Service, Inc., a Delaware corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“ Multiemployer Plan ” means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

“ New Lender ” means with respect to any event described in Section 2.04(b), an Eligible Assignee which becomes a Lender hereunder as a result of such event, and “New Lenders” means any two or more of such New Lenders.

“ Non-Defaulting Lender ” means each Lender other than a Defaulting Lender, and “Non-Defaulting Lenders” means any two or more of such Lenders.

“ Non-Recourse Debt ” shall mean Debt that is nonrecourse to the Borrower or any asset of the Borrower.

“ Non-U.S. Lender ” has the meaning set forth in Section 2.09(e).

“ Obligations ” means:

(i) all principal of and interest (including, without limitation, any interest which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on any advance, fees payable or Reimbursement Obligation under any other Loan Document;

(ii) all other amounts now or hereafter payable by the Borrower and all other obligations or liabilities now existing or hereafter arising or incurred (including, without limitation, any amounts which accrue after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Borrower, whether or not allowed or allowable as a claim in any such proceeding) on the part of the Borrower pursuant to this Agreement or any other Loan Document;

(iii) all expenses of the Agent as to which the Agent has a right to reimbursement under Section 9.03(a) hereof or under any other similar provision of any other Loan Document; and

(iv) all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 9.03 hereof or under any other similar provision of any other Loan Document;

together in each case with all renewals, modifications, consolidations or extensions thereof.

“ OFAC ” means the U.S. Department of the Treasury’s Office of Foreign Assets Control.

“ Original Letter of Credit Agreement ” has the meaning set forth in the recitals hereto.

“ Other Pollution Control Bonds ” means tax-exempt pollution control bonds issued on behalf of the Borrower and/or its Subsidiaries other than the Existing Pollution Control Bonds.

“ Other Taxes ” has the meaning set forth in Section 2.09(b).

“ Participant ” has the meaning set forth in Section 9.06(b).

“ Participant Register ” has the meaning set forth in Section 9.06(b).

“ PBGC ” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“ Permitted Business ” with respect to any Person means a business that is the same or similar to the business of the Borrower or any Subsidiary as of the Effective Date, or any business reasonably related thereto.

“ Person ” means an individual, a corporation, a partnership, an association, a limited liability company, a trust or an unincorporated association or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“ Plan ” means at any time an employee pension benefit plan (including a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

“ Prime Rate ” means the rate of interest which is identified as the “Prime Rate” and normally published in the Money Rates section of The Wall Street Journal (or, if such rate ceases to be so published, as quoted from such other generally available and recognizable source as the Administrative Agent may reasonably select).

“ Public Reporting Company ” means a company subject to the periodic reporting requirements of the Securities and Exchange Act of 1934.

“ Quarterly Date ” means the last Business Day of each of March, June, September and December.

“ Rating Agency ” means S&P or Moody’s, and “Rating Agencies” means both of them.

“ Register ” has the meaning set forth in Section 9.06(e).

“ Regulation U ” means Regulation U of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“ Regulation X ” means Regulation X of the Board of Governors of the Federal Reserve System, as amended, or any successor regulation.

“ Reimbursement Agreement ” has the meaning set forth in Section 3.01.

“ Reimbursement Obligations ” means at any time all obligations of the Borrower to reimburse the Issuing Lenders pursuant to (i) Section 3.07 for amounts paid by the Issuing Lenders in respect of drawings under Letters of Credit and (ii) Section 2.11 for all Loans (whether or not due and payable) made by Issuing Lenders in respect of Liquidity Drawings, in each case, including any portion of any such obligation to which a Lender has become subrogated pursuant to Section 3.09.

“ Replacement Date ” has the meaning set forth in Section 2.04(b).

“ Replacement Lender ” has the meaning set forth in Section 2.04(b).

“ Required Lenders ” means at any time Non-Defaulting Lenders having at least 51% of the aggregate amount of the Commitments of all Non-Defaulting Lenders at such time, but in no event less than two Non-Defaulting Lenders which are not Affiliates of each other (unless there is only one Non-Defaulting Lender at such time, in which case “Required Lenders” shall mean such Non-Defaulting Lender).

“ Responsible Officer ” means, as to any Person, the chief executive officer, president, chief financial officer, controller, treasurer or assistant treasurer of such Person or any other officer of such Person reasonably acceptable to the Administrative Agent. Any document delivered hereunder that is signed by a Responsible Officer of a Person shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Person and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Person.

“ Retiring Lender ” means a Lender that ceases to be a Lender hereunder pursuant to the operation of Section 2.04(b).

“ 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.

“ SEC ” means the Securities and Exchange Commission.

“ SMBC ” has the meaning set forth in the introductory paragraph hereto.

“ S&P ” means Standard & Poor’s Ratings Group, a division of McGraw Hill, Inc., a New York corporation, and its successors or, absent any such successor, such nationally recognized statistical rating organization as the Borrower and the Administrative Agent may select.

“ Subsidiary ” means any Corporation, a majority of the outstanding Voting Stock of which is owned, directly or indirectly, by the Borrower or one or more other Subsidiaries of the Borrower.

“ Synthetic Lease ” means any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP.

“ Taxes ” has the meaning set forth in Section 2.09(a).

“ Termination Date ” means the earliest to occur of (a) April 29, 2014 and (b) such earlier date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.

“ TRA ” means the Tennessee Regulatory Authority.

“ Unfunded Liabilities ” means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

“ United States ” means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

“ Voting Stock ” means stock (or other interests) of a Corporation having ordinary voting power for the election of directors, managers or trustees thereof, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

“ VSCC ” means the Virginia State Corporation Commission.

“ Wholly Owned Subsidiary ” means, with respect to any Person at any date, any Subsidiary of such Person all of the Voting Stock of which (except directors’ qualifying shares) is at the time directly or indirectly owned by such Person.

ARTICLE II THE CREDITS

Section 2.01. Commitments. Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make advances to the Borrower constituting its share of any “Mandatory Letter of Credit Borrowing” and Loans pursuant to Section 3.09 from time to time during the Availability Period in amounts such that its Letter of Credit Liabilities shall not exceed its Commitment. Each such advance shall be disbursed directly to the applicable Issuing Lender on behalf of the Borrower, pursuant to Section 3.09.

Section 2.02. Noteless Agreement; Evidence of Indebtedness.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each advance made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Administrative Agent shall also maintain accounts in which it will record (a) the amount of each advance made hereunder, (b) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (c) the amount of any sum received by the Administrative Agent hereunder from the Borrower and each Lender’s share thereof.

(c) The entries maintained in the accounts maintained pursuant to paragraphs (a) and (b) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided, however, that the failure of the Administrative Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms .

Section 2.03. Fees.

(a) Facility Fees. The Borrower shall pay to the Administrative Agent a fee (the “Facility Fee”) for each day at a rate per annum equal to the Applicable Percentage for the Facility Fee for such day. The Facility Fee shall accrue from and including the Effective Date to but excluding the last day of the Availability Period on the aggregate amount of each Lender’s Commitment (whether used or unused) on such day. In addition, the Borrower shall pay to each Issuing Lender a fee (the “Fronting Fee”) in respect of all Letters of Credit issued by such Issuing Lender computed at the rate equal to the product of (i) the difference between (a) the total average amount available for all of such Issuing Lender’s Letters of Credit outstanding hereunder and (b) the product of such Issuing Lender’s Commitment Ratio and the total average amount available for drawing under all Letters of Credit issued by all Issuing Lenders and outstanding hereunder and (ii) 0.15% per annum, on the average amount available for drawing under such Letter(s) of Credit. Fronting Fees shall be due and payable quarterly in arrears on each Quarterly Date and on the Termination Date (or such earlier date as all Letters of Credit shall be canceled or expire). In addition, the Borrower agrees to pay to each Issuing Lender, 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 such Issuing Lender is customarily charging for issuances of, payments under, or amendments to letters of credit issued by it.

(b) Payments. Except as otherwise provided in this Section 2.03, accrued fees under this Section 2.03 in respect of Commitments shall be payable quarterly in arrears on each Quarterly Date, on the last day of the Availability Period and, if later, on the date the Letter of Credit Liabilities shall be repaid in their entirety. Fees paid hereunder shall not be refundable under any circumstances.

Section 2.04. Adjustments of Commitments.

(a) Optional Termination or Reductions of Commitments (Pro-Rata). The Borrower may, upon at least three Business Days' prior written notice to the Administrative Agent, permanently (i) terminate the Commitments, if there are no Letter of Credit Liabilities at such time or (ii) ratably reduce from time to time by a minimum amount of \$10,000,000 or any larger integral multiple of \$5,000,000, the aggregate amount of the Commitments in excess of the aggregate Letter of Credit Liabilities. Upon receipt of any such notice, the Administrative Agent shall promptly notify the Lenders. If the Commitments are terminated in their entirety, all accrued fees shall be payable on the effective date of such termination.

(b) Optional Termination of Commitments (Non-Pro-Rata). If (i) any Lender has demanded compensation or indemnification pursuant to Sections 2.08 or 2.09, or (ii) any Lender is a Defaulting Lender (each such Lender described in clauses (i) or (ii) being a "Retiring Lender"), the Borrower shall have the right, if no Default then exists, to replace such Lender with one or more Eligible Assignees (which may be one or more of the Continuing Lenders) (each a "Replacement Lender" and, collectively, the "Replacement Lenders") reasonably acceptable to the Administrative Agent. The replacement of a Retiring Lender pursuant to this Section 2.04(b) shall be effective on the tenth Business Day (the "Replacement Date") following the date of notice given by the Borrower of such replacement to the Retiring Lender and each Continuing Lender through the Administrative Agent, subject to the satisfaction of the following conditions:

(i) the Replacement Lender shall have satisfied the conditions to assignment and assumption set forth in Section 9.06(c) (with all fees payable pursuant to Section 9.06(c) to be paid by the Borrower) and, in connection therewith, the Replacement Lender(s) shall pay:

(A) to the Retiring Lender an amount equal in the aggregate to the sum of (x) all unpaid drawings and Loans that have been funded by (and not reimbursed to) the Retiring Lender under Section 3.09, together with all accrued but unpaid interest with respect thereto and (y) all accrued but unpaid fees owing to the Retiring Lender pursuant to Section 2.03; and

(B) to the Issuing Lenders an amount equal to the aggregate amount owing by the Retiring Lender to the Issuing Lenders as reimbursement pursuant to Section 3.09, to the extent such amount was not theretofore funded by such Retiring Lender; and

(ii) the Borrower shall have paid to the Administrative Agent for the account of the Retiring Lender an amount equal to all obligations owing to the Retiring Lender by the Borrower pursuant to this Agreement and the other Loan Documents (other than those obligations of the Borrower referred to in clause (i)(A) above) .

On the Replacement Date, each Replacement Lender that is a New Lender shall become a Lender hereunder and shall succeed to the obligations of the Retiring Lender with respect to outstanding Letters of Credit and Loans to the extent of the Commitment of the Retiring Lender assumed by such Replacement Lender, and the Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.08, 2.09 and 9.03 of this Agreement shall continue to inure to the benefit of a Retiring Lender with respect to any advance made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

In lieu of the foregoing, subject to Section 2.04(e), upon express written consent of Continuing Lenders holding more than 50% of the aggregate amount of the Commitments of the Continuing Lenders, the Borrower shall have the right to permanently terminate the Commitment of a Retiring Lender in full. Upon payment by the Borrower to the Administrative Agent for the account of the Retiring Lender of an amount equal to the sum of (i) the aggregate principal amount of all Reimbursement Obligations owed to the Retiring Lender (even if any such Reimbursement Obligations are not otherwise due and payable) and (ii) all accrued interest, fees and other amounts owing to the Retiring Lender hereunder, including, without limitation, all amounts payable by the Borrower to the Retiring Lender under Sections 2.08, 2.09 or 9.03, such Retiring Lender shall cease to constitute a Lender hereunder; provided, that the provisions of Sections 2.08, 2.09 and 9.03 of this Agreement shall inure to the benefit of a Retiring Lender with respect to any advance made, any Letters of Credit issued or any other actions taken by such Retiring Lender while it was a Lender.

(c) Optional Termination of Defaulting Lender Commitment (Non-Pro-Rata). At any time a Lender is a Defaulting Lender, subject to Section 2.04(e), the Borrower may terminate in full the Commitment of such Defaulting Lender by giving notice to such Defaulting Lender and the Administrative Agent, provided, that, (i) at the time of such termination, (A) no Default has occurred and is continuing (or alternatively, the Required Lenders shall consent to such termination) and (B) no Letter of Credit Liabilities are outstanding; (ii) concurrently with such termination, the aggregate Commitments shall be reduced by the Commitment of the Defaulting Lender; and (iii) concurrently with any subsequent payment of interest or fees to the Lenders with respect to any period before the termination of a Defaulting Lender's Commitment, the Borrower shall pay to such Defaulting Lender its ratable share (based on its Commitment Ratio before giving effect to such termination) of such interest or fees, as applicable. The termination of a Defaulting Lender's Commitment pursuant to this Section 2.04 (c) shall not be deemed to be a waiver of any right that the Borrower, Administrative Agent, any Issuing Lender or any other Lender may have against such Defaulting Lender.

(d) Termination Date. The Commitments shall terminate on the Termination Date.

(e) Redetermination of Commitment Ratios. On the date of termination of the Commitment of a Retiring Lender or Defaulting Lender pursuant to Section 2.04(b) or (c), the Commitment Ratios of the Continuing Lenders shall be redetermined after giving effect thereto, and the participations of the Continuing Lenders in and obligations of the Continuing Lenders in respect of any then outstanding Letters of Credit and Loans shall thereafter be based upon such redetermined Commitment Ratios (to the extent not previously adjusted pursuant to Section 2.10). The right of the Borrower to effect such a termination is conditioned on there being sufficient unused availability in the Commitments of the Continuing Lenders such that the aggregate Letter of Credit Liabilities will not exceed the aggregate Commitments after giving effect to such termination and redetermination.

Section 2.05. Mandatory Prepayments.

(a) Scheduled Repayments and Prepayments.

(i) Letter of Credit Liabilities outstanding (together with accrued interest thereon and fees in respect thereof) shall be due and payable on the Termination Date or, in the case of Letters of Credit, cash collateralized pursuant to Section 2.05(a)(ii), on such date.

(ii) If at a time when the Commitments have been terminated pursuant to this Agreement and any Letter of Credit Liabilities remain outstanding, then the Borrower shall (A) repay any outstanding Loans, together with all accrued but unpaid interest with respect thereto and (B) cash collateralize any Letters of Credit by depositing into a cash collateral account established and maintained (including the investments made pursuant thereto) by the Administrative Agent pursuant to a cash collateral agreement in form and substance satisfactory to the Administrative Agent an amount in cash equal to the then outstanding Letter of Credit Liabilities. In determining Letter of Credit Liabilities outstanding for purposes of this clause (ii), Letter of Credit Liabilities shall be reduced to the extent that any Loans are repaid and any Letters of Credit are cash collateralized, each as contemplated by this Section 2.05(a)(ii).

(b) Applications of Prepayments and Reductions.

(i) Each payment or prepayment of Letter of Credit Liabilities pursuant to this Section 2.05 shall be applied ratably to the respective Letter of Credit Liabilities of all of the Lenders.

(ii) Each payment of Letter of Credit Liabilities shall be made together with interest accrued on the amount repaid to the date of payment.

Section 2.06. General Provisions as to Payments.

(a) Payments by the Borrower. The Borrower shall make each payment of principal of and interest on Letter of Credit Liabilities and fees hereunder (other than fees payable directly to the Issuing Lenders) not later than 12:00 Noon (New York, NY time) on the date when due, without set-off, counterclaim or other deduction, in Federal or other funds immediately available in New York, NY, to the Administrative Agent at its address referred to in

Section 9.01. The Administrative Agent will promptly distribute to each Lender its ratable share of each such payment received by the Administrative Agent for the account of the Lenders. Whenever any payment of principal or of interest on the Letter of Credit Liabilities or of fees 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.

(b) Distributions by the Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date, and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent that the Borrower shall not have so made such payment, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate .

Section 2.07. Computation of Interest and Fees. Facility Fees 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. All other interest and fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.08. Increased Cost and Reduced Return.

(a) 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 any Lender 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 or participated in by or Loans made or participated in by, assets of, deposits with or for the account of or credit extended by, any Lender or shall impose on any Lender or on the United States market for certificates of deposit or the London interbank market any other condition affecting its obligations hereunder in respect of Letters of Credit or Loans, and the result of any of the foregoing is to increase the cost to such Lender of issuing, making or participating in any Letter of Credit or Loan, or to reduce the amount of any sum received or receivable by such Lender under this Agreement, then, within fifteen (15) days after demand by such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts, as determined by such Lender in good faith, as will compensate such Lender for such increased cost or reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(b) Capital Adequacy. If any Lender 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 such Lender (or any Person controlling such Lender) as a consequence of such Lender's obligations hereunder to a level below that which such Lender (or any Person controlling such Lender) 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 such Lender (with a copy to the Administrative Agent), the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender (or any Person controlling such Lender) for such reduction, solely to the extent that any such additional amounts were incurred by the Lender within ninety (90) days of such demand.

(c) Notices. Each Lender will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the date hereof, that will entitle such Lender to compensation pursuant to this Section. A certificate of any Lender 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, such Lender may use any reasonable averaging and attribution methods .

Section 2.09. Taxes.

(a) Payments Net of Certain Taxes . Any and all payments by or on account of any obligation of the Borrower to or for the account of any Lender or the Agent hereunder or under any other Loan Document 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 of, and gross receipts, franchise or similar taxes imposed on, the Agent or any Lender by the jurisdiction (or subdivision thereof) under the laws of which such Lender or Agent is organized or in which its principal executive office is located or, in the case of each Lender, in which its Applicable Lending Office is located, (ii) branch profits or similar taxes imposed by reason of any present or former connection between such Lender or Agent and the jurisdiction (or subdivision thereof) imposing such taxes, other than solely as a result of the execution and delivery of this Agreement or the performance of any action provided for hereunder, (iii) in the case of each Lender, any United States withholding tax imposed on such payments, but only to the extent that such Lender is subject to United States withholding tax at the time such Lender first becomes a party to this Agreement or changes its Applicable Lending Office, (iv) any backup withholding tax imposed by the United States (or any state or locality thereof) on a Lender or Administrative Agent that is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code, and (v) any taxes imposed by " Taxes "). If the Borrower or Administrative Agent shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any other Loan Document to any Lender or the Agent, (i) the sum payable by the Borrower shall be increased as necessary so that after making all such required deductions (including deductions

applicable to additional sums payable under this Section 2.09(a)) such Lender or Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower or Administrative Agent, as applicable, shall make such deductions, (iii) the Borrower or Administrative Agent, as applicable, shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) if such deduction is made by the Borrower, the Borrower shall furnish to the Administrative Agent, for delivery to such Lender, the original or a certified copy of a receipt evidencing payment thereof.

(b) Other Taxes. In addition, the Borrower 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 any other Loan Document or from the execution, delivery, registration or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document (collectively, “Other Taxes”).

(c) Indemnification. The Borrower agrees to indemnify each Lender and the Agent 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 2.09(c)), whether or not correctly or legally asserted, paid by such Lender or Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto as certified in good faith to the Borrower by each Lender or Agent seeking indemnification pursuant to this Section 2.09(c). This indemnification shall be paid within 15 days after such Lender or Agent (as the case may be) makes demand therefor.

(d) Refunds or Credits. If a Lender or the Agent receives a refund, credit or other reduction from a taxation authority for any Taxes or Other Taxes for which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.09, it shall within fifteen (15) days from the date of such receipt pay over the amount of such refund, credit or other reduction to the Borrower (but only to the extent of indemnity payments made or additional amounts paid by the Borrower under this Section 2.09 with respect to the Taxes or Other Taxes giving rise to such refund, credit or other reduction), net of all reasonable out-of-pocket expenses of such Lender or Agent (as the case may be) and without interest (other than interest paid by the relevant taxation authority with respect to such refund, credit or other reduction); provided, however, that the Borrower agrees to repay, upon the request of such Lender or Agent (as the case may be), the amount paid over to the Borrower (plus penalties, interest or other charges) to such Lender or Agent in the event such Lender or Agent is required to repay such refund or credit to such taxation authority.

(e) Tax Forms and Certificates. On or before the date it becomes a party to this Agreement, from time to time thereafter if reasonably requested by the Borrower or the Administrative Agent, and at any time it changes its Applicable Lending Office: (i) each Lender that is a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Administrative Agent 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 Borrower or the Administrative Agent, as the case may be, certifying that such Lender is a United States person and is entitled to

an exemption from United States backup withholding tax or information reporting requirements; and (ii) each Lender that is not a “United States person” within the meaning of Section 7701(a)(30) of the Internal Revenue Code (a “Non-U.S. Lender”) shall deliver to the Borrower and the Administrative Agent: (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 such Non-U.S. Lender is entitled to the benefits under an income tax treaty to which the United States is a party which exempts the Non-U.S. Lender from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Non-U.S. Lender; (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 and the other Loan Documents 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) such Non-U.S. Lender 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 Borrower 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 Borrower 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 such Non-U.S. Lender or are effectively connected but are not includible in the Non-U.S. Lender’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 the Non-U.S. Lender 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 a Lender under any Loan Document would be subject to U.S. Federal withholding tax imposed by FATCA if such Lender 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), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender’s obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this Section 2.09(e), “FATCA” shall include any amendments made to FATCA after the date of the Original Letter of Credit Agreement. In addition, each Lender agrees that from time to time after the Effective Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to the Borrower and the Administrative Agent 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 such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued

exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any other Loan Document, or it shall immediately notify the Borrower and the Administrative Agent of its inability to deliver any such Form or certificate.

(f) Exclusions. The Borrower shall not be required to indemnify any Non-U.S. Lender, or to pay any additional amount to any Non-U.S. Lender, pursuant to Section 2.09(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 such Non-U.S. Lender to comply with the provisions of subsection (e) above.

(g) Mitigation. If the Borrower is required to pay additional amounts to or for the account of any Lender pursuant to this Section 2.09, then such Lender will use reasonable efforts to change the jurisdiction of its Applicable Lending Office if, in the good faith judgment of such Lender, 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 such Lender, to such Lender. Any Lender claiming any indemnity payment or additional amounts payable pursuant to this Section shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document reasonably requested in writing by the Borrower 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 such Lender, be otherwise disadvantageous to such Lender.

(h) Confidentiality. Nothing contained in this Section shall require any Lender or the Agent to make available any of its tax returns (or any other information that it deems to be confidential or proprietary).

Section 2.10. Defaulting Lenders. Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(i) the Facility Fee shall cease to accrue on the Commitment of such Defaulting Lender except to the extent such Defaulting Lender has funded a portion of an outstanding Mandatory Letter of Credit Borrowing or has funded its participation in a Loan, each pursuant to Section 3.09;

(ii) with respect to any Letter of Credit Liabilities of such Defaulting Lender that exists at the time a Lender becomes a Defaulting Lender or thereafter:

(A) all or any part of such Defaulting Lender's Letter of Credit Liabilities shall be reallocated among the Non-Defaulting Lenders in accordance with their respective Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment) but only to the extent that (x) the conditions set forth in Section 4.02, and if applicable, Section 4.03, are satisfied at such time and (y) such reallocation does not cause the Letter of Credit Liabilities of any Non-Defaulting Lender to exceed such

Non-Defaulting Lender's Commitment;

(B) if the reallocation described in clause (ii)(A) above cannot, or can only partially, be effected, each Issuing Lender, in its discretion may require the Borrower to (i) reimburse all amounts paid by an Issuing Lender upon any drawing under a Letter of Credit and repay all Loans made hereunder, in each case, to the extent of such Defaulting Lender's participation in the applicable Letters of Credit and Loans and/or (ii) cash collateralize (in accordance with Section 2.05(a)(ii)) all obligations of such Defaulting Lender in respect of outstanding Letters of Credit in an amount at least equal to the aggregate amount of the obligations (contingent or otherwise) of such Defaulting Lender in respect of such Letters of Credit (in each case of clause (i) and (ii) of this paragraph, after giving effect to any partial reallocation pursuant to Section 2.10(a)(ii)(A) above);

(iii) if the Borrower cash collateralizes any portion of such Defaulting Lender's Letter of Credit Liabilities pursuant to Section 2.10(a)(ii)(B) then the Borrower shall not be required to pay any fees to such Defaulting Lender pursuant to Section 2.03(a) with respect to such Defaulting Lender's Letter of Credit Liabilities during the period such Defaulting Lender's Letter of Credit Liabilities are cash collateralized;

(iv) if the Letter of Credit Liabilities of the Non-Defaulting Lenders is reallocated pursuant to Section 2.10(a)(ii)(A) above, then the fees payable to the Lenders pursuant to Section 2.03(a) shall be adjusted in accordance with such Non-Defaulting Lenders' Commitment Ratios (calculated without regard to such Defaulting Lender's Commitment); and

(v) if any Defaulting Lender's Letter of Credit Liabilities is neither reimbursed, repaid, cash collateralized nor reallocated pursuant to this Section 2.10(a)(ii), then, without prejudice to any rights or remedies of the Issuing Lenders or any other Lender hereunder, all fees that otherwise would have been payable to such Defaulting Lender (solely with respect to the portion of such Defaulting Lender's Commitment that was utilized by such Letter of Credit Liabilities) and Facility Fees payable under Section 2.03(a) with respect to such Defaulting Lender's Letter of Credit Liabilities shall be payable to the Issuing Lenders, pro rata, until such Letter of Credit Liabilities is cash collateralized, reallocated and/or repaid in full.

(b) So long as any Lender is a Defaulting Lender, no Issuing Lender shall be required to issue, amend or increase any Letter of Credit, unless it is satisfied that the related exposure will be 100% covered by the Commitments of the Non-Defaulting Lenders and/or cash collateral will be provided by the Borrower in accordance with Section 2.10(a), and participating interests in any such newly issued or increased Letter of Credit shall be allocated among Non-Defaulting Lenders in a manner consistent with Section 3.05 (and Defaulting Lenders shall not participate therein).

Section 2.11. Loans. Commitment. Subject to satisfaction of the conditions set forth in Section 4.02 and the other terms and conditions contained in this Agreement, each Issuing

Lender agrees at any time and from time to time after the Amendment and Restatement Effective Date and prior to the Termination Date to make loans (the “Loans”) to the Borrower. The Loans shall not exceed in aggregate principal amount at any time outstanding the aggregate amount of all Liquidity Drawings with respect to Letters of Credit issued by such Issuing Lender which have not been repaid to such Issuing Lender.

(b) Purpose of Loans. The Borrower may obtain a Loan under this Agreement only for the purpose of converting the obligation of the Borrower under Section 3.07 to reimburse the applicable Issuing Lender for a Liquidity Drawing from an obligation due on the relevant drawing date to an obligation due as provided in this Section 2.11. The obtaining of any Loan for such purpose shall not constitute a reimbursement of the amount of the relevant Liquidity Drawing which would result in the reinstatement of the Available Amount. No Loans will be made for the purpose of converting the obligation of the Borrower under Section 3.07 to reimburse the Issuing Lenders for the amount of any drawing other than a Liquidity Drawing or for any other purpose.

(c) Loan Procedure. In the event that the Borrower does not otherwise reimburse the applicable Issuing Lender in cash in accordance with the provisions of Section 3.07 of this Agreement for the amount of any Liquidity Drawing prior to the time for payment specified in Section 3.07, the Borrower will be deemed to have requested a Loan in an amount equal to the amount of such Liquidity Drawing for the purposes specified in Section 2.11(b).

(d) Loans. Each Loan shall be in a principal amount equal to the relevant Liquidity Drawing. Each Loan, together with all accrued and unpaid interest thereon, shall be paid by the Borrower pursuant to Section 2.06(a) upon the earliest of (i) the remarketing of the Bonds purchased with the proceeds of the Liquidity Drawing that gave rise to such Loan pursuant to applicable Bond Indenture and (ii) the Termination Date.

(e) Interest on Loans. Each Loan shall bear interest on its outstanding principal amount at a fluctuating daily rate per annum equal to (i) the Base Rate plus the Facility Fee for the first ninety days, (B) the Base Rate plus the Facility Fee plus 1% for the second ninety days and (C) the Base Rate plus the Facility Fee plus 2% for each day thereafter. Interest shall be payable, pursuant to Section 2.06(a), quarterly in arrears on each Quarterly Date commencing on the first Quarterly Date to occur following the relevant drawing date, and on the maturity of such Loan.

(f) Voluntary Prepayments. The Borrower shall have the right to prepay the Loans in whole or in part, without premium or penalty, from time to time pursuant to this Section 2.11(f) on the following terms and conditions: (i) the Borrower shall give the Administrative Agent prior written notice or telephonic notice (confirmed in writing), no later than 5:00 P.M., New York City time, one Business Day prior thereto, of its intent to prepay Loans, the amount of such prepayment and the identities of the Loans (by specifying the date and original amount of the respective Loans) to be prepaid; (ii) each prepayment of a Loan (other than the portion of a Loan equal to the amount of the relevant Liquidity Drawing representing accrued interest on pollution control bonds) shall be in a principal amount of \$100,000 or any larger amount that is a whole multiple of \$1,000 (or, if less, the amount then remaining outstanding in respect of such

Loan); and (iii) at the time of any prepayment, the Borrower shall pay all interest accrued on the principal amount of such prepayment.

(g) Custody Bonds. Payments, if any, received by any Issuing Lender on account of Custody Bonds shall be credited against the Loan made in respect of the Liquidity Drawing used to purchase such Custody Bonds. Any such payment shall be credited first against interest and then against the principal balance of such Loan. The Issuing Lenders agrees to release Custody Bonds that are being remarketed pursuant to the applicable Bond Indenture to the extent that such Issuing Lender receives reimbursement in cash of the principal and, if applicable, interest amounts, of the Liquidity Drawing (or the Loan made in respect thereof) related to the purchase of such Custody Bonds in a manner which will permit the reinstatement of the Available Amount in respect of such Custody Bonds in accordance with the terms of the Letter of Credit.

(h) Payment by the Borrower. Each Issuing Lender agrees to release, or cause the trustee under the applicable Bond Indenture to release, Custody Bonds to or upon the order of the Borrower in an amount equal to the principal amount of the Liquidity Drawing made to acquire such Custody Bonds that is not repaid from remarketing proceeds upon payment to the applicable Issuing Lender by the Borrower of the full amount of such Liquidity Drawing (or the Loan made in respect thereof), together with accrued and unpaid interest thereon.

(i) Excess Payments. Payments, if any, received by any Issuing Lender as a holder of Custody Bonds shall, if no Loans are outstanding, be credited against other amounts, if any, that are then owing by the Borrower hereunder. If no amounts are then due and owing by the Borrower hereunder, or if an amount in excess of all amounts due and owing by the Borrower hereunder remains following the payment of such due and owing amounts, so long as no Event of Default has occurred and is continuing, such remaining amounts shall be immediately returned to the Borrower in accordance with its written directions. Payments, if any, described under this Section 2.11(i) shall not be construed as prepayments that are subject to the limitations of Section 2.11(f).

ARTICLE III LETTERS OF CREDIT

Section 3.01. Issuing Lenders; Reimbursement Agreement.

(a) Subject to the terms and conditions hereof, the Borrower may from time to time identify and arrange for one or more of the Lenders (in addition to SMBC) to act as Issuing Lenders hereunder. Any such designation by the Borrower shall be notified to the Administrative Agent at least four Business Days prior to the first date upon which the Borrower proposes that such Issuing Lender issue its first Letter of Credit, so as to provide adequate time for such Issuing Lender to be approved by the Administrative Agent hereunder (such approval not to be unreasonably withheld). Within two Business Days following the receipt of any such designation of a proposed Issuing Lender, the Administrative Agent shall notify the Borrower as to whether such designee is acceptable to the Administrative Agent. Nothing contained herein shall be deemed to require any Lender (other than SMBC) to agree to act as an Issuing Lender, if it does not so desire.

(b) The Borrower and any Issuing Lender shall enter into a Reimbursement Agreement (a “Reimbursement Agreement”) with respect to each Letter of Credit issued by such Issuing Lender hereunder in the form of Exhibit A hereto. Each such Reimbursement Agreement shall constitute a Loan Document.

Section 3.02. Letters of Credit. Each Issuing Lender agrees, on the terms and conditions set forth in this Agreement, to issue Letters of Credit from time to time before the fifth day prior to the Termination Date, for the account, and upon the request, of the Borrower; provided, that immediately after each Letter of Credit is issued, the aggregate Letter of Credit Liabilities shall not exceed the aggregate amount of the Commitments.

Section 3.03. Method of Issuance of Letters of Credit. The Borrower shall give an Issuing Lender notice substantially in the form of Exhibit D hereto (a “Letter of Credit Request”) of the requested issuance, extension or renewal of a Letter of Credit prior to 1:00 P.M. (New York, NY time) on the proposed date of the issuance, extension or renewal of such Letter of Credit (which shall be a Business Day) (or such shorter period as may be agreed by such Issuing Lender in any particular instance), and in the case of the issuance of a Letter of Credit, the Borrower shall deliver to such Issuing Lender prior to 1:00 P.M. (New York, NY time) on the proposed date of the issuance a duly executed and fully completed Reimbursement Agreement. The extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit. No Letter of Credit shall have a term extending or be so extendible beyond the fifth Business Day before the Termination Date.

Section 3.04. Conditions to Issuance of Letters of Credit. The issuance by an Issuing Lender of each Letter of Credit shall, in addition to the conditions precedent set forth in Article IV, be subject to the conditions precedent that (i) such Letter of Credit shall be in the form called for by the Reimbursement Agreement with all information filled in and verified to the satisfaction of such Issuing Lender, (ii) the Borrower shall have executed and delivered the Reimbursement Agreement, the Custody Agreement and such other instruments and agreements relating to such Letter of Credit as such Issuing Lender shall have reasonably requested and (iii) such Issuing Lender shall have confirmed on the date of (and after giving effect to) such issuance that the aggregate Letter of Credit Liabilities will not exceed the aggregate amount of the Commitments. Notwithstanding any other provision of this Section 3.04, no Issuing Lender shall 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 such Issuing Lender from issuing such Letter of Credit, or any requirement of law applicable to such Issuing Lender or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over such Issuing Lender shall prohibit, or request that such Issuing Lender refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon such Issuing Lender with respect to such Letter of Credit any restriction, reserve or capital requirement (for which such Issuing Lender is not otherwise compensated hereunder) not in effect on the date hereof, or shall impose upon such Issuing Lender any unreimbursed loss, cost or expense which was not applicable on the date hereof and which such Issuing Lender in good faith deems material to it.

Section 3.05. Purchase and Sale of Letter of Credit and Loan Participations. Upon the issuance of a Letter of Credit or upon the making of a Loan by an Issuing Lender, such Issuing

Lender shall be deemed, without further action by any party hereto, to have sold to each Lender, and each Lender shall be deemed, without further action by any party hereto, to have purchased from such Issuing Lender, without recourse or warranty, an undivided participation interest in such Letter of Credit or Loan, as applicable, and the related Letter of Credit Liabilities in accordance with its respective Commitment Ratio (although the Fronting Fee payable under Section 2.03(a) shall be payable directly to the Administrative Agent for the account of the applicable Issuing Lender, and the Lenders (other than such Issuing Lender) shall have no right to receive any portion of any such Fronting Fee) and any security therefor or guaranty pertaining thereto.

Section 3.06. Drawings under Letters of Credit. Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the applicable Issuing Lender shall determine in accordance with the terms of such Letter of Credit whether such drawing should be honored. If such Issuing Lender determines that any such drawing shall be honored, such Issuing Lender 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 Borrower as to the amount to be paid as a result of such drawing and the payment date.

Section 3.07. Reimbursements of Drawings under Letters of Credit. The Borrower shall be irrevocably and unconditionally obligated forthwith to reimburse the applicable Issuing Lender for any amounts paid by such Issuing Lender upon any drawing under any Letter of Credit (whether by payment of cash pursuant to this Section 3.07 or, in the case of a Liquidity Drawing, by converting such obligation into a Loan obligation due as provided in Section 2.11 pursuant to Section 2.11(b)), together with any and all reasonable charges and expenses which such Issuing Lender may pay or incur relative to such drawing and interest on the amount drawn at the Base 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 1:00 P.M. (New York, NY time) on the date the applicable Issuing Lender notifies the Borrower of such drawing, if such notice is given at or before 10:00 A.M. (New York, NY time) on such date or (ii) at or before 10:00 A.M. (New York, NY time) on the next succeeding Business Day; provided, that no payment otherwise required by this sentence to be made by the Borrower at or before 1:00 P.M. (New York, NY time) on any day shall be overdue hereunder if arrangements for such payment satisfactory to the applicable Issuing Lender, in its reasonable discretion, shall have been made by the Borrower at or before 1:00 P.M. (New York, NY time) on such day and such payment is actually made at or before 3:00 P.M. (New York, NY time) on such day. In addition, the Borrower agrees to pay to the applicable Issuing Lender interest, payable on demand, on any and all amounts not paid by the Borrower to such Issuing Lender when due under this Section 3.07, for each day from and including the date when such amount becomes due to but excluding the date such amount is paid in full, at a rate per annum equal to the interest rate that would otherwise be applicable to Loans made on the date such amount was due plus 2%. Each payment to be made by the Borrower pursuant to this Section 3.07 shall be made to the applicable Issuing Lender in Federal or other funds immediately available to it at its address referred to Section 9.01.

Section 3.08. Duties of Issuing Lenders to Lenders; Reliance. In determining whether to pay under any Letter of Credit, the relevant Issuing Lender shall not have any obligation relative to the Lenders participating in such Letter of Credit or the related Letter of Credit Liabilities

other than to determine that any document or documents required to be delivered under such Letter of Credit have been delivered and that they substantially comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by an Issuing Lender under or in connection with any Letter of Credit shall not create for such Issuing Lender any resulting liability if taken or omitted in the absence of gross negligence or willful misconduct. Each Issuing Lender shall be entitled (but not obligated) to rely, and shall be fully protected in relying, on (i) the representation and warranty by the Borrower set forth in the last sentence of Section 4.02 to establish whether the conditions specified in clauses (b) and (c) of Section 4.02 are met and, (ii) if applicable, the representation and warranty by the Borrower set forth in the last sentence of Section 4.03 to establish whether the condition specified in clause (a) of Section 4.03 is met, in connection with any issuance or extension of a Letter of Credit. Each Issuing Lender shall be entitled to rely, and shall be fully protected in relying, upon advice and statements of legal counsel, independent accountants and other experts selected by such Issuing Lender and upon any Letter of Credit, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopier, telex or teletype message, statement, order or other document believed by it in good faith to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary unless the beneficiary and the Borrower shall have notified such Issuing Lender that such documents do not comply with the terms and conditions of the Letter of Credit. Each Issuing Lender shall be fully justified in refusing to take any action requested of it under this Section in respect of any Letter of Credit unless it shall first have received such advice or concurrence of the Required Lenders as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take, or omitting or continuing to omit, any such action. Notwithstanding any other provision of this Section, each Issuing Lender shall in all cases be fully protected in acting, or in refraining from acting, under this Section in respect of any Letter of Credit in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant hereto shall be binding upon all Lenders and all future holders of participations in such Letter of Credit; provided, that this sentence shall not affect any rights the Borrower may have against any Issuing Lender or the Lenders that make such request.

Section 3.09. Obligations of Lenders to Reimburse Issuing Lender for Unpaid Drawings and Loans. If any Issuing Lender makes any:

(a) payment under any Letter of Credit and the Borrower shall not have reimbursed such amount in full to such Issuing Lender pursuant to Section 3.07 such Issuing Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Lender (other than the relevant Issuing Lender), and each such Lender shall promptly and unconditionally pay to the Administrative Agent, for the account of such Issuing Lender, such Lender's share of such payment (determined in accordance with its respective Commitment Ratio) in Dollars in Federal or other immediately available funds (the aggregate of such payments relating to each unreimbursed amount being referred to herein as a "Mandatory Letter of Credit Borrowing"); or

(b) Loan under Section 2.11 and any portion of such Loan remains outstanding, such Issuing Lender shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Lender (other than the relevant Issuing Lender), and each such Lender shall promptly and unconditionally pay to the Administrative Agent, for the account of such Issuing Lender, such Lender's share of such Loan (determined in accordance with its respective Commitment Ratio) in Dollars in Federal or other immediately available funds;

(i) provided, however, that no Lender shall be obligated to pay to the Administrative Agent its pro rata share of such unreimbursed amount (or Loan in respect thereof) for any wrongful payment made by the relevant Issuing Lender under a Letter of Credit as a result of acts or omissions constituting willful misconduct or gross negligence by such Issuing Lender. If the Administrative Agent so notifies a Lender prior to 11:00 A.M. (New York, NY time) on any Business Day, such Lender shall make available to the Administrative Agent at its address referred to in Section 9.01 and for the account of the relevant Issuing Lender such Lender's pro rata share of the amount of such payment by 3:00 P.M. (New York, NY time) on the Business Day following such Lender's receipt of notice from the Administrative Agent, together with interest on such amount for each day from and including the date of such drawing or Loan, as applicable, to but excluding the day such payment is due from such Lender at the Federal Funds Rate for such day (which funds the Administrative Agent shall promptly remit to such Issuing Lender). The failure of any Lender to make available to the Administrative Agent for the account of an Issuing Lender its pro rata share of any unreimbursed drawing under any Letter of Credit or unpaid Loan hereunder shall not relieve any other Lender of its obligation hereunder to make available to the Administrative Agent for the account of such Issuing Lender its pro rata share of any payment made under any Letter of Credit or any Loan on the date required, as specified above, but no such Lender shall be responsible for the failure of any other Lender to make available to the Administrative Agent for the account of such Issuing Lender such other Lender's pro rata share of any such payment. If any Lender fails to pay any amount required to be paid by it pursuant to this Section 3.09 on the date on which such payment is due, interest shall accrue on such Lender's obligation to make such payment, for each day from and including the date such payment became due to but excluding the date such Lender makes such payment, whether before or after judgment, at a rate per annum equal to (i) for each day from the date such payment is due to the third succeeding Business Day, inclusive, the Federal Funds Rate for such day as determined by the relevant Issuing Lender and (ii) for each day thereafter, the interest rate that would otherwise be applicable to Loans made on the date such payment was due plus 2%. Any payment made by any Lender after 3:00 P.M. (New York, NY time) on any Business Day shall be deemed for purposes of the preceding sentence to have been made on the next succeeding Business Day. Upon payment in full of all amounts payable by a Lender under this Section 3.09, such Lender shall be subrogated to the rights of the relevant Issuing Lender against the Borrower from the time of such payment to the extent of such Lender's pro rata share of the related Letter of Credit Liabilities (including interest accrued thereon) including, for the avoidance of doubt, (i) in the case of any advances made with respect to any Mandatory Letter of Credit Borrowing, the right of payment of such advance by the Borrower on demand (together with interest) pursuant to Section 3.07 with such advance bearing interest for each day until paid at a rate per annum equal to the interest rate that would otherwise be applicable to Loans made on the date such payment was due payable plus 2% and (ii) in the case of any advances made with respect to any Loan, the right of payment of such advance pursuant to Section 2.11(d)

(together with all accrued and unpaid interest) with such advance bearing interest for each day until paid at the rate per annum specified in Section 2.11(e).

Section 3.10. Funds Received from the Borrower in Respect of Drawn Letters of Credit. Whenever an Issuing Lender receives a payment of a Reimbursement Obligation as to which the Administrative Agent has received for the account of such Issuing Lender any payments from the other Lenders pursuant to Section 3.09 above, such Issuing Lender shall pay the amount of such payment to the Administrative Agent, and the Administrative Agent shall promptly pay to each Lender which has paid its pro rata share thereof, in Dollars in Federal or other immediately available funds, an amount equal to such Lender's pro rata share of the principal amount thereof and interest thereon for each day after relevant date of payment at the Federal Funds Rate.

Section 3.11. Obligations in Respect of Letters of Credit Unconditional. The obligations of the Borrower under Section 3.07 and Section 2.11 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 Borrower may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), any Issuing Lender 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 the relevant Issuing Lender'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 such Issuing Lender; or
- (g) any other act or omission to act or delay of any kind by any Issuing Lender 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 Borrower's obligations hereunder.

Nothing in this Section 3.11 is intended to limit the right of the Borrower to make a claim against any Issuing Lender for damages as contemplated by the proviso to the first sentence of Section 3.12.

Section 3.12. Indemnification in Respect of Letters of Credit and Loans. The Borrower hereby indemnifies and holds harmless each Lender (including each Issuing Lender) and the Administrative Agent from and against any and all claims, damages, losses, liabilities, costs or expenses which such Lender or the Administrative Agent may incur by reason of or in connection with the failure of any other Lender to fulfill or comply with its obligations to such Issuing Lender hereunder (but nothing herein contained shall affect any rights which the Borrower may have against such defaulting Lender), and none of the Lenders (including any Issuing Lender) nor the Administrative Agent, their respective affiliates nor any of their respective officers, directors, employees or agents shall be liable or responsible, 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 or any Loan, including, without limitation, any of the circumstances enumerated in Section 3.11, 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 or Loan; provided, that the Borrower shall not be required to indemnify any Issuing Lender for any claims, damages, losses, liabilities, costs or expenses, and the Borrower shall have a claim against such Issuing Lender 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 (i) the willful misconduct or gross negligence of such Issuing Lender in determining whether a request presented under any Letter of Credit issued by it complied with the terms of such Letter of Credit or (ii) such Issuing Lender'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 3.12 is intended to limit the obligations of the Borrower under any other provision of this Agreement.

Section 3.13. 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.

ARTICLE IV CONDITIONS

Section 4.01. Conditions to Effectiveness of this Agreement. The conditions to the effectiveness of the this Agreement are set forth in Section 7 of the Amendment and Restatement Agreement.

Section 4.02. Conditions to All Credit Events. The obligation of any Issuing Lender to issue (or renew or extend the term of) any Letter of Credit or to make a Loan in respect of any Liquidity Drawing, is subject to the satisfaction of the following conditions:

- (a) receipt by an Issuing Lender of a Letter of Credit Request as required by Section 3.03 (other than with respect to a Loan deemed requested pursuant to Section 2.11(c));
- (b) the fact that, immediately before and after giving effect to such Credit Event, no Default or Event of Default shall have occurred and be continuing on the date of such Credit Event or after giving effect to such Credit Event requested to be made on such date; and
- (c) the fact that the representations and warranties of the Borrower contained in this Agreement and the other Loan Documents shall be true and correct on and as of the date of such Credit Event, 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(b), Section 5.05 and Section 5.13, which shall be deemed only to relate to the matters referred to therein on and as of the Effective Date; and
- (d) with respect to the making of any Loan, immediately before and after giving effect to such Loan, no event of default or other similar condition or event (however described) under the applicable Bond Indenture shall have occurred and be continuing.

Each Credit Event under this Agreement shall be deemed to be a representation and warranty by the Borrower on the date of such Credit Event as to the facts specified in clauses (b) and (c) (and, with respect to the making of any Loan, clause (d)) of this Section.

Section 4.03. Additional Conditions to Credit Events. The obligation of any Issuing Lender to issue (or renew or extend the term of) any Letter of Credit to support any issuance of Other Pollution Control Bonds, is subject to the satisfaction of the following conditions:

- (a) no authorization, consent or approval from any Governmental Authority is required for the Borrower to incur obligations in respect of Letters of Credit to support such issuance of Other Pollution Control Bonds except such authorizations, consents and approvals, including, without limitation, the KPSC Order, TRA Order and VSCC Order, as shall have been obtained prior to such Credit Event and shall be in full force and effect; and
- (b) the Administrative Agent shall have received from counsel to the Borrower, opinions addressed to the Administrative Agent and each Lender, satisfactory in form and substance to each of the Administrative Agent and the Issuing Lender each in its sole discretion, dated the date of such Credit Event, covering such matters as the Administrative Agent and the Issuing Lender shall reasonably request, including, without limitation, that no authorization, consent or approval from any Governmental Authority is required for the Borrower to incur obligations in respect of Letters of Credit to support such issuance of Other Pollution Control Bonds except such authorizations, consents and approvals, including, without limitation, the KPSC Order, TRA Order and VSCC Order, as shall have been obtained prior to such Credit Event and shall be in full force and effect.

Each Credit Event with respect to any Letter of Credit to support any issuance of Other Pollution Control Bonds shall be deemed to be a representation and warranty by the Borrower on the date of such Credit Event as to the facts specified in clause (a) of this Section.

ARTICLE V REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

Section 5.01. Status. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Kentucky and the Commonwealth of Virginia and has the corporate authority to make and perform this Agreement and each other Loan Document to which it is a party.

Section 5.02. Authority; No Conflict. The execution, delivery and performance by the Borrower of this Agreement and each other Loan Document to which it is a party have been duly authorized by all necessary corporate action and do not violate (i) any provision of law or regulation, or any decree, order, writ or judgment, (ii) any provision of its articles of incorporation or bylaws, or (iii) result in the breach of or constitute a default under any indenture or other agreement or instrument to which the Borrower is a party.

Section 5.03. Legality; Etc. This Agreement and each other Loan Document to which the Borrower is a party constitute the legal, valid and binding obligations of the Borrower, in each case enforceable against the Borrower 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 5.04. Financial Condition.

(a) Audited Financial Statements. The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 2010 and the related consolidated statements of income and cash flows for the fiscal year then ended, reported on by PricewaterhouseCoopers LLP, copies of which have been delivered to each of the Administrative Agent and the Lenders, fairly present, in conformity with GAAP, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) Material Adverse Change. Since December 31, 2010 there has been no change in the business, assets, financial condition or operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, that would materially and adversely affect the Borrower's ability to perform any of its obligations under this Agreement or the other Loan Documents.

Section 5.05. Litigation. Except as disclosed in or contemplated by the financial statements referenced in Section 5.04(a) above, or otherwise furnished in writing to the

Administrative Agent and each Lender, no litigation, arbitration or administrative proceeding against the Borrower is pending or, to the Borrower's knowledge, threatened, which would reasonably be expected to materially and adversely affect the ability of the Borrower to perform any of its obligations under this Agreement or the other Loan Documents. There is no litigation, arbitration or administrative proceeding pending or, to the knowledge of the Borrower, threatened which questions the validity of this Agreement or the other Loan Documents to which it is a party.

Section 5.06. No Violation. No part of the proceeds of the advances hereunder will be used, directly or indirectly by the Borrower 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 Borrower 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 5.07. 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 5.08. Governmental Approvals. No authorization, consent or approval from any Governmental Authority is required for the execution, delivery and performance by the Borrower of this Agreement and the other Loan Documents to which it is a party and except such authorizations, consents and approvals, including, without limitation, the KPSC Order, TRA Order and VSCC Order, as shall have been obtained prior to the Effective Date and shall be in full force and effect; *provided* that the Borrower may require additional approvals of the KPSC, TRA, VSCC and/or FERC in order to incur obligations in respect of Letters of Credit to support issuances of bonds other than the Existing Pollution Control Bonds.

Section 5.09. Investment Company Act. The Borrower is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 5.10. Tax Returns and Payments. The Borrower 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 Borrower 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 5.11. Compliance with Laws. To the knowledge of the Borrower, the Borrower 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 or any other Loan Document to which it is a party.

Section 5.12. No Default. No Default has occurred and is continuing.

Section 5.13. Environmental Matters.

(a) Except (i) as disclosed in the financial statements referenced in Section 5.04(a) above, or otherwise furnished in writing to the Administrative Agent and each Lender, or (ii) to the extent that the liabilities of the Borrower 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 5.13(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 Borrower or any of its Subsidiaries, no penalty has been assessed nor is any investigation or review pending or, to the Borrower'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 Borrower or any of its Subsidiaries of or under any Environmental Law, (B) alleged failure by the Borrower 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 Borrower'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 Borrower or any of its Subsidiaries; and

(iii) no property now or previously owned, leased or operated by the Borrower or any of its Subsidiaries or, to the Borrower's or any of its Subsidiaries' knowledge, any property to which the Borrower or any of its Subsidiaries has, directly or indirectly, transported or arranged for the transportation of any Hazardous Substances, is listed or, to the Borrower'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 the financial statements referenced in Section 5.04(a) above, or otherwise furnished in writing to the Administrative Agent and each Lender, to the Borrower'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 5.13, the terms "the Borrower" and "Subsidiary" shall include any business or business entity (including a corporation) which is a predecessor, in whole or in part, of the Borrower or any of its Subsidiaries from the time such business or business entity became a Subsidiary of PPL Corporation, a Pennsylvania corporation.

Section 5.14. OFAC. None of the Borrower, any Subsidiary of the Borrower or any Affiliate of the Borrower: (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. The proceeds of any advance will not be used and have not been used to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Entity.

ARTICLE VI COVENANTS

The Borrower agrees that so long as any Lender has any Commitment hereunder or any amount payable hereunder or under any other Loan Document remains unpaid or any Letter of Credit Liability remains outstanding:

Section 6.01. Information. The Borrower will deliver or cause to be delivered to each of the Lenders (it being understood that the posting of the information required in clauses (a), (b) and (f) of this Section 6.01 on the Borrower's website or PPL Corporation's website (<http://www.pplweb.com>) or making such information available on IntraLinks, Syndtrak (or similar service) shall be deemed to be effective delivery to the Lenders):

(a) Annual Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within one hundred and five (105) days after the end of each fiscal year of the Borrower), a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income and cash flows for such fiscal year and accompanied by an opinion thereon by independent public accountants of recognized national standing, which opinion shall state that such consolidated financial statements present fairly the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of the date of such financial statements and the results of their operations for the period covered by such financial statements in conformity with GAAP applied on a consistent basis.

(b) Quarterly Financial Statements. Promptly when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC (or, if the Borrower is not a Public Reporting Company, within sixty (60) days after the end of each quarterly fiscal period in each fiscal year of the Borrower (other than the last quarterly fiscal period of the Borrower)), a consolidated balance sheet of the Borrower and its

Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such fiscal quarter, all certified (subject to normal year-end audit adjustments) as to fairness of presentation, GAAP and consistency by any vice president, the treasurer or the controller of the Borrower.

(c) Officer's Certificate. Simultaneously with the delivery of each set of financial statements referred to in subsections (a) and (b) above, a certificate of the chief accounting officer or controller of the Borrower, (i) setting forth in reasonable detail the calculations required to establish compliance with the requirements of Section 6.09 on the date of such financial statements and (ii) stating whether there exists on the date of such certificate any Default and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(d) Default. Forthwith upon acquiring knowledge of the occurrence of any (i) Default or (ii) Event of Default, in either case a certificate of a vice president or the treasurer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto.

(e) Change in Borrower's Ratings. Promptly, upon the chief executive officer, the president, any vice president or any senior financial officer of the Borrower obtaining knowledge of any change in a Borrower's Rating, a notice of such Borrower's Rating in effect after giving effect to such change.

(f) Securities Laws Filing. To the extent the Borrower is a Public Reporting Company, promptly, when available and in any event within ten (10) days after the date such information is required to be delivered to the SEC, a copy of any Form 10-K Report to the SEC and a copy of any Form 10-Q Report to the SEC, and promptly upon the filing thereof, any other filings with the SEC.

(g) ERISA Matters. If and when any member of the ERISA Group: (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives, with respect to any Material Plan that is a Multiemployer Plan, notice of any complete or partial withdrawal liability under Title IV of ERISA, or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Material Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code with respect to a Material Plan, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA; or (vii) fails to make any payment or contribution to any Plan or makes any amendment to any Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a copy of such notice, a certificate of the chief

accounting officer or controller of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take.

(h) Other Information. From time to time such additional financial or other information regarding the financial condition, results of operations, properties, assets or business of the Borrower or any of its Subsidiaries as any Lender may reasonably request.

The Borrower hereby acknowledges that (a) the Administrative Agent will make available to the Lenders and each Issuing Lender materials and/or information provided by or on behalf of the Borrower hereunder (collectively, “Borrower Materials”) by posting the Borrower Materials on IntraLinks or another similar electronic system (the “Platform”) and (b) certain of the Lenders may be “public-side” Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a “Public Lender”). The Borrower hereby agrees that it will use commercially reasonable efforts to identify that portion of the Borrower Materials that may be distributed to the Public Lenders and that (w) all such Borrower Materials shall be clearly and conspicuously marked “PUBLIC” which, at a minimum, shall mean that the word “PUBLIC” shall appear prominently on the first page thereof; (x) by marking Borrower Materials “PUBLIC,” the Borrower shall be deemed to have authorized the Administrative Agent, the Issuing Lenders and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Borrower or its securities for purposes of United States Federal and state securities laws (provided, however, that to the extent such Borrower Materials constitute Information (as defined below), they shall be treated as set forth in Section 9.12); (y) all Borrower Materials marked “PUBLIC” are permitted to be made available through a portion of the Platform designated “Public Investor;” and (z) the Administrative Agent shall be entitled to treat any Borrower Materials that are not marked “PUBLIC” as being suitable only for posting (subject to Section 9.12) on a portion of the Platform not designated “Public Investor.” “Information” means all information received from the Borrower or any of its Subsidiaries relating to the Borrower or any of its Subsidiaries or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or any Issuing Lender on a nonconfidential basis prior to disclosure by the Borrower or any of its Subsidiaries; provided that, in the case of information received from the Borrower or any of its Subsidiaries after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Section 6.02. Maintenance of Property; Insurance.

(a) Maintenance of Properties. The Borrower will keep all property useful and necessary in its businesses in good working order and condition, subject to ordinary wear and tear, unless the Borrower determines in good faith that the continued maintenance of any of such properties is no longer economically desirable and so long as the failure to so maintain such properties would not reasonably be expected to have a Material Adverse Effect.

(b) Insurance. The Borrower will maintain, or cause to be maintained, insurance with financially sound (determined in the reasonable judgment of the Borrower) and responsible companies in such amounts (and with such risk retentions) and against such risks as is usually carried by owners of similar businesses and properties in the same general areas in which the Borrower operates.

Section 6.03. Conduct of Business and Maintenance of Existence. The Borrower will (i) continue to engage in businesses of the same general type as now conducted by the Borrower and its Subsidiaries and businesses related thereto or arising out of such businesses, except to the extent that the failure to maintain any existing business would not have a Material Adverse Effect and (ii) except as otherwise permitted in Section 6.07, preserve, renew and keep in full force and effect, and will cause each of its Subsidiaries to preserve, renew and keep in full force and effect, their respective corporate (or other entity) existence and their respective rights, privileges and franchises necessary or material to the normal conduct of business, except, in each case, where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.04. Compliance with Laws, Etc. The Borrower will comply 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 could not reasonably be expected to have a Material Adverse Effect.

Section 6.05. Books and Records. The Borrower (i) will keep, and will cause each of its Subsidiaries to keep, proper books of record and account in conformity with GAAP and (ii) will permit representatives of the Administrative Agent and each of the Lenders to visit and inspect any of their respective properties, to examine and make copies from any of their respective books and records and to discuss their respective affairs, finances and accounts with their officers, any employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired; provided, that, the rights created in this Section 6.05 to “visit”, “inspect”, “discuss” and copy shall not extend to any matters which the Borrower deems, in good faith, to be confidential, unless the Administrative Agent and any such Lender agree in writing to keep such matters confidential.

Section 6.06. Use of Proceeds. The Borrower will request the issuance of Letters of Credit solely to support issuances of tax-exempt pollution control bonds issued on behalf of the Borrower and/or its Subsidiaries.

Section 6.07. Merger or Consolidation. The Borrower will not merge with or into or consolidate with or into any other corporation or entity, unless (i) immediately after giving effect thereto, no event shall occur and be continuing which constitutes a Default, (ii) the surviving or resulting Person, as the case may be, assumes and agrees in writing to pay and perform all of the obligations of the Borrower under this Agreement, (iii) substantially all of the consolidated assets and consolidated revenues of the surviving or resulting Person, as the case may be, are anticipated to come from the utility or energy businesses and (iv) the senior long-term debt

ratings from both Rating Agencies of the surviving or resulting Person, as the case may be, immediately following the merger or consolidation is equal to or greater than the senior long-term debt ratings from both Rating Agencies of the Borrower immediately preceding the announcement of such consolidation or merger.

Section 6.08. Asset Sales. Except for the sale of assets required to be sold to conform with governmental requirements, the Borrower shall not consummate any Asset Sale, if the aggregate net book value of all such Asset Sales consummated during the four calendar quarters immediately preceding any date of determination would exceed 25% of the total assets of the Borrower and its Consolidated Subsidiaries as of the beginning of the Borrower's most recently ended full fiscal quarter; provided, however, that any such Asset Sale will be disregarded for purposes of the 25% limitation specified above: (a) if any such Asset Sale is in the ordinary course of business of the Borrower (b) if the assets subject to any such Asset Sale are worn out or are no longer useful or necessary in connection with the operation of the businesses of the Borrower; (c) if the assets subject to any such Asset Sale are being transferred to a Wholly Owned Subsidiary of the Borrower; (d) if the proceeds from any such Asset Sale (i) are, within twelve (12) months of such Asset Sale, invested or reinvested by the Borrower in a Permitted Business, (ii) are used by the Borrower to repay Debt of the Borrower, or (iii) are retained by the Borrower; or (e) if, prior to any such Asset Sale, both Rating Agencies confirm the then-current Borrower Ratings after giving effect to any such Asset Sale.

Section 6.09. Consolidated Debt to Consolidated Capitalization Ratio. The ratio of Consolidated Debt of the Borrower to Consolidated Capitalization of the Borrower shall not exceed 70%, measured as of the end of each fiscal quarter.

Section 6.10. Limitation on Liens. Without the consent of the Administrative Agent, the Borrower shall not grant any Lien upon any of its property or assets in favor of the lenders under the Existing Credit Agreement in order to secure its obligations under the Existing Credit Agreement, unless the Obligations are secured on an equal and ratable basis with the obligations so secured; provided, however, that nothing in this Section 6.10 shall prohibit the Borrower from cash collateralizing letters of credit pursuant to Section 2.09 of the Existing Credit Agreement or similar provisions. For the avoidance of doubt, the limitation on liens and the requirement to secure the Obligations pursuant to this Section 6.10 shall not apply to (i) the granting of any Liens on the Borrower's accounts receivable in connection with any accounts receivable sale or financing program and (ii) entering into credit agreements, standby bond purchase agreements or similar facilities in support of pollution control bonds issued on behalf of the Borrower and securing obligations of the Borrower thereunder, including pursuant to arrangements similar to the Custody Agreement or otherwise.

ARTICLE VII DEFAULTS

Section 7.01. Events of Default. If one or more of the following events (each an "Event of Default") shall have occurred and be continuing:

- (a) the Borrower shall fail to pay when due any principal on any Reimbursement Obligations; or
- (b) the Borrower shall fail to pay when due any interest on Reimbursement Obligations, any fee or any other amount payable hereunder or under any other Loan Document for five (5) days following the date such payment becomes due hereunder; or
- (c) the Borrower shall fail to observe or perform any covenant or agreement contained in clause (ii) of Section 6.05, or Sections 6.06, 6.07, 6.08 or 6.09; or
- (d) the Borrower shall fail to observe or perform any covenant or agreement contained in Section 6.01(d)(i) for 30 days after any such failure or in Section 6.01(d)(ii) for ten (10) days after any such failure; or
- (e) the Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement or any other Loan Document (other than those covered by clauses (a), (b), (c) or (d) above) for thirty (30) days after written notice thereof has been given to the defaulting party by the Administrative Agent, or at the request of the Required Lenders; or
- (f) any representation, warranty or certification made by the Borrower in this Agreement or any other Loan Document 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
- (g) the Borrower shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Material Debt beyond any period of grace 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 period of grace 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
- (h) the Borrower 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
- (i) an involuntary case or other proceeding shall be commenced against the Borrower 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 Borrower under the Bankruptcy Code; or

(j) 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

(k) the Borrower 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 Borrower that is not stayed on appeal or otherwise being appropriately contested in good faith; or

(l) a Change of Control shall have occurred;

then, and in every such event, while such event is continuing, the Administrative Agent may (A) if requested by the Required Lenders, by notice to the Borrower terminate the Commitments, and the Commitments shall thereupon terminate, and (B) if requested by the Lenders holding more than 50% of the sum of the aggregate outstanding principal amount of the Letter of Credit Liabilities at such time, by notice to the Borrower declare the Letter of Credit Liabilities (together with accrued interest and accrued and unpaid fees thereon and all other amounts due hereunder) to be, and the Letter of Credit Liabilities 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 (in accordance with Section 2.05(a)(ii)) all Letter of Credit Liabilities then outstanding; provided, that, in the case of any Default or any Event of Default specified in Section 7.01(h) or 7.01(i) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or any Lender, the Commitments shall thereupon terminate and the Letter of Credit Liabilities (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 Borrower, and the Borrower shall cash collateralize (in accordance with Section 2.05(a)(ii)) all Letter of Credit Liabilities then outstanding.

**ARTICLE VIII
THE AGENT**

Section 8.01. Appointment and Authorization. Each Lender hereby irrevocably designates and appoints the Administrative Agent to act as specified herein and in the other Loan Documents and to take such actions on its behalf under the provisions of this Agreement and the other Loan Documents and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. The Administrative Agent agrees to act as such upon the express conditions contained in this Article VIII. Notwithstanding any provision to the contrary elsewhere in this Agreement or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein or in the other Loan Documents, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent. The provisions of this Article VIII are solely for the benefit of the Administrative Agent and Lenders, and no other Person shall have any rights as a third party beneficiary of any of the provisions hereof. For the sake of clarity, the Lenders hereby agree that no Person other than the Administrative Agent shall have, in such capacity, any duties or powers with respect to this Agreement or the other Loan Documents.

Section 8.02. Individual Capacity. The Administrative Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower and its Affiliates as though the Administrative Agent were not the Administrative Agent. With respect to the advances made by it and all obligations owing to it, the Administrative Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not the Administrative Agent, and the terms "Required Lenders", "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

Section 8.03. Delegation of Duties. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents or attorneys-in-fact. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care except to the extent otherwise required by Section 8.07.

Section 8.04. Reliance by the Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy or other electronic facsimile transmission, telex, telegram, cable, teletype, electronic transmission by modem, computer disk or any other message, statement, order or other writing or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders, or all of the Lenders, if applicable, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all

cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders or all of the Lenders, if applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders.

Section 8.05. Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default hereunder unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default and stating that such notice is a “notice of default”. If the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interests of the Lenders.

Section 8.06. Non-Reliance on the Agent and Other Lenders. Each Lender expressly acknowledges that neither the Agent nor any officer, director, employee, agent, attorney-in-fact or affiliate of the Agent has made any representations or warranties to it and that no act by the Agent hereafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by the Agent to any Lender. Each Lender acknowledges to the Agent that it has, independently and without reliance upon the Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower and made its own decision to make advances hereunder and to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, assets, operations, property, financial and other condition, prospects and creditworthiness of the Borrower. The Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, assets, property, financial and other condition, prospects or creditworthiness of the Borrower which may come into the possession of the Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

Section 8.07. Exculpatory Provisions. The Administrative Agent shall not, and no officers, directors, employees, agents, attorneys-in-fact or affiliates of the Administrative Agent, shall (i) be liable for any action lawfully taken or omitted to be taken by it under or in connection with this Agreement or any other Loan Document (except for its own gross negligence, willful misconduct or bad faith) or (ii) be responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any of its officers contained in this Agreement, in any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for any failure of the Borrower or any of its officers to perform its obligations hereunder or thereunder. The

Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower. The Administrative Agent shall not be responsible to any Lender for the effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any other Loan Document or for any representations, warranties, recitals or statements made by any other Person herein or therein or made by any other Person in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by the Administrative Agent to the Lenders or by or on behalf of the Borrower to the Administrative Agent or any Lender or be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the advances or of the existence or possible existence of any Default.

Section 8.08. Indemnification. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Sections 9.03(a), (b) or (c) to be paid by it to the Administrative Agent (or any sub-agent thereof), the Lenders agree to indemnify the Administrative Agent, in its capacity as such, and hold the Administrative Agent, in its capacity as such, harmless ratably according to their respective Commitments from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs and reasonable expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the full payment of the obligations of the Borrower hereunder) be imposed on, incurred by or asserted against the Administrative Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Document, or any documents contemplated hereby or referred to herein or the transactions contemplated hereby or any action taken or omitted to be taken by the Administrative Agent under or in connection with any of the foregoing, but only to the extent that any of the foregoing is not paid by the Borrower; provided, that no Lender shall be liable to the Administrative Agent for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs or expenses or disbursements resulting from the gross negligence, willful misconduct or bad faith of the Administrative Agent. If any indemnity furnished to the Administrative Agent for any purpose shall, in the reasonable opinion of the Administrative Agent, be insufficient or become impaired, the Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished. The agreement in this Section 8.08 shall survive the payment of all Letter of Credit Liabilities, fees and other obligations of the Borrower arising hereunder.

Section 8.09. Resignation; Successors. The Administrative Agent may resign as Administrative Agent upon twenty (20) days notice to the Lenders. Upon the resignation of the Administrative Agent, the Required Lenders shall have the right to appoint from among the Lenders a successor to the Administrative Agent, subject to prior approval by the Borrower (so long as no Event of Default exists) (such approval not to be unreasonably withheld), whereupon such successor Administrative Agent shall succeed to and become vested with all the rights, powers and duties of the retiring Administrative Agent, and the term "Administrative Agent" shall include such successor Administrative Agent effective upon its appointment, and the retiring Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative

Agent or any of the parties to this Agreement or any other Loan Document. If no successor shall have been appointed by the Required Lenders and approved by the Borrower and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may at its election give notice to the Lenders and the Borrower of the immediate effectiveness of its resignation and such resignation shall thereupon become effective and the Lenders collectively shall perform all of the duties of the Administrative Agent hereunder and under the other Loan Documents until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After the retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement or any other Loan Document.

Section 8.10. Administrative Agent's Fees. The Borrower shall pay to the Administrative Agent for its own account fees in the amount and at the times agreed upon between the Borrower and the Administrative Agent pursuant to the Fee Letter referenced in clause (ii) of the definition thereof.

ARTICLE IX MISCELLANEOUS

Section 9.01. 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 any Lender or Issuing Lender pursuant to Article II or Article III, as applicable, if such Lender or Issuing Lender, as applicable, has notified the Administrative Agent 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, in the case of the Borrower and the Administrative Agent, 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 Borrower:

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507
Attention: Treasurer
Telephone: 502-627-4956
Facsimile: 502-627-4742

with a copies to:

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507
Attention: General Counsel
Telephone: 502-627-3665
Facsimile: 502-627-4622

PPL Services Corporation
Two North Ninth Street (GENTW4)
Allentown, Pennsylvania 18101-1179
Attention: Frederick C. Paine, Esq.
Telephone: 610-774-7445
Facsimile: 610-774-6726

PPL Services Corporation
Two North Ninth Street (GENTW14)
Allentown, Pennsylvania 18101-1179
Attention: Russell R. Clelland
Telephone: 610-774-5151
Facsimile: 610-774-5235

if to the Administrative Agent:

BANCO BILBAO VIZCAYA ARGENTARIA S.A., NEW YORK BRANCH
Global Lending USA & Canada
1345 Avenue of the Americas, 45th Floor
New York, NY 10105
Attention: Anne-Maureen Sarfati, Head of Portfolio Management & Monitoring
Email: pmsf@bbvany.com
Facsimile No.: (212) 258-2216

with a copy to:

Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, New York 10017

Attention: Jason Kyrwood
Telephone: 212-450-4653
Facsimile: 212-450-5653

Section 9.02. No Waivers; Non-Exclusive Remedies. No failure by the Agent or any Lender to exercise, no course of dealing with respect to, and no delay in exercising any right, power or privilege hereunder or under any other Loan 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 other Loan Documents shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.03. Expenses; Indemnification.

(a) Expenses. The Borrower shall pay (i) all out-of-pocket expenses of the Agent, including legal fees and disbursements of Davis Polk & Wardwell LLP and any other local counsel retained by the Agent, in its reasonable discretion, in connection with the preparation, execution, delivery and administration of the Loan Documents, 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 the Agent and each Lender, 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 Borrower shall not be liable for any legal fees or disbursements of any counsel for the Agent and the Lenders other than Davis Polk & Wardwell LLP associated with the preparation, execution and delivery of this Agreement and the closing documents contemplated hereby.

(b) Indemnity in Respect of Loan Documents. The Borrower agrees to indemnify the Agent and each Lender, their respective 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 Borrower 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 Borrower or any Subsidiary of the Borrower) in any way relating to or arising out of this Agreement, any other Loan Document or any documents contemplated hereby or referred to herein or any actual or proposed use of proceeds of advances 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 Borrower 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 Borrower 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 Borrower or any of its Subsidiaries or any predecessor of the Borrower or any of its Subsidiaries, or any and all Environmental Liabilities. Without limiting the generality of the foregoing, the Borrower 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 Borrower 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, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Letter of Credit or Loan 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 other Loan Documents or the transactions contemplated hereby or thereby; provided that nothing in this Section 9.03(d) shall relieve any Lender from its obligations under Section 9.12.

Section 9.04. Sharing of Set-Offs. Each Lender agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Letter of Credit Liabilities which is greater than the proportion received by any other Lender in respect of the aggregate amount of principal and interest due with respect to any Letter of Credit Liabilities made or held by such other Lender, the Lender receiving such proportionately greater payment shall purchase such participations in the Letter of Credit Liabilities held by the other Lenders, and such other adjustments shall be made, in each case as may be required so that all such payments of principal and interest with respect to Letter of Credit Liabilities made or held by the Lenders shall be shared by the Lenders pro rata; provided, that nothing in this Section shall impair the right of any Lender to exercise any right of set-off or counterclaim it may have for payment of indebtedness of the Borrower other than its indebtedness hereunder.

Section 9.05. 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 Borrower and the Required Lenders (and, if the rights or duties of the Administrative Agent or any Issuing Lenders are affected thereby, by the Administrative Agent or such Issuing Lender, as relevant); provided, that no such amendment or waiver shall, (a) unless signed by each Lender adversely affected thereby, (i) increase the Commitment of any Lender or subject any Lender to

any additional obligation (it being understood that waivers or modifications of conditions precedent, covenants, Defaults or of mandatory reductions in the Commitments shall not constitute an increase of the Commitment of any Lender, and that an increase in the available portion of any Commitment of any Lender as in effect at any time shall not constitute an increase in such Commitment), (ii) reduce the amount to be reimbursed in respect of any Letter of Credit or Loan or any interest thereon or any fees hereunder, (iii) postpone the date fixed for any payment of the amount to be reimbursed in respect of any Letter of Credit or Loan or any interest thereon or any fees hereunder or for any scheduled reduction or termination of any Commitment or (except as expressly provided in Article III) expiration date of any Letter of Credit, (iv) amend Section 2.01, (v) change any provision hereof in a manner that would alter the pro rata sharing of payments required by Sections 2.06(a), 2.05(b) or 9.04 or the pro rata reduction of Commitments required by Section 2.04(a) or (vi) change the currency in which Letters of Credit are to be issued or payment under the Loan Documents is to be made, or add additional borrowers or (b) unless signed by each Lender, change the definition of Required Lender or this Section 9.05 or Section 9.06(a).

Section 9.06. 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 Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all of the Lenders, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement.

(b) Participations. Any Lender may at any time grant to one or more banks or other financial institutions or special purpose funding vehicle (each a "Participant") participating interests in its Commitments and/or any or all of its Letter of Credit Liabilities. In the event of any such grant by a Lender of a participating interest to a Participant, whether or not upon notice to the Borrower and the Administrative Agent, such Lender shall remain responsible for the performance of its obligations hereunder, and the Borrower, the Issuing Lenders and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which any Lender may grant such a participating interest shall provide that such Lender shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided, that such participation agreement may provide that such Lender will not agree to any modification, amendment or waiver of this Agreement which would (i) extend the Termination Date, reduce the rate or extend the time of payment of principal, interest or fees on any Letter of Credit Liability in which such Participant is participating (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the Participant's participation over the amount thereof then in effect (it being understood that a waiver of any Default or of a mandatory reduction in the Commitments shall not constitute a change in the terms of such participation, and that an increase in any Commitment or Letter of Credit Liability shall be permitted without the consent of any Participant if the Participant's participation is not increased as a result thereof) or (ii) allow the assignment or transfer by the Borrower of any of its rights

and obligations under this Agreement, without the consent of the Participant, except to the extent any such assignment results from the consummation of a merger or consolidation permitted pursuant to Section 6.07 of this Agreement. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article II with respect to its participating interest to the same extent as if it were a Lender, subject to the same limitations, and in no case shall any Participant be entitled to receive any amount payable pursuant to Article II that is greater than the amount the Lender granting such Participant's participating interest would have been entitled to receive had such Lender not sold such participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b). Each Lender that sells a participation shall, acting solely for this purpose as an agent of the Borrower, maintain a register (solely for tax purposes) on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the obligations under the Loan Documents (the "Participant Register"); provided, that no Lender shall have any obligation to disclose all or any portion of the Participant Register to any Person (including the identity of any Participant or any information relating to a Participant's interest in any obligations under the Loan Documents) except to the extent that such disclosure is necessary to establish that such obligation is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations.. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(c) Assignments Generally. Any Lender may at any time assign to one or more Eligible Assignees (each, an "Assignee") all, or a proportionate part (equivalent to an initial amount of not less than \$5,000,000 or any larger integral multiple of \$1,000,000), of its rights and obligations under this Agreement and, if still in existence, its Commitment, and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit B attached hereto executed by such Assignee and such transferor, with (and subject to) the consent of (i) the Borrower, which shall not be unreasonably withheld or delayed, (ii) the Administrative Agent, which shall not be unreasonably withheld or delayed, and (iii) each Issuing Lender, in its sole discretion; provided, that if an Assignee is an Affiliate of such transferor Lender or was a Lender immediately prior to such assignment, no such consent of the Borrower or the Administrative Agent shall be required; provided, further, that if at the time of such assignment a Default or an Event of Default has occurred and is continuing, no such consent of the Borrower shall be required; provided, further, that the provisions of Sections 2.08, 2.09 and 9.03 of this Agreement shall inure to the benefit of a transferor with respect to any Letters of Credit issued or any other actions taken by such transferor while it was a Lender. Upon execution and delivery of such instrument and payment by such Assignee to such transferor of an amount equal to the purchase price agreed between such transferor and such Assignee, such Assignee shall be a Lender party to this Agreement and shall have all the rights and obligations of a Lender with a Commitment, if any, as set forth in such instrument of assumption, and the transferor shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. In connection with any such assignment, the transferor shall pay to the Administrative Agent an administrative fee for processing such assignment in the amount of \$3,500; provided that the

Administrative Agent may, in its sole discretion, elect to waive such administrative fee in the case of any assignment. Each Assignee shall, on or before the effective date of such assignment, deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States Taxes in accordance with Section 2.09(e).

(d) Assignments to Federal Reserve Banks. Any Lender 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 the transferor Lender from its obligations hereunder.

(e) Register. The Borrower hereby designates the Administrative Agent to serve as the Borrower's agent, solely for purposes of this Section 9.06(e), to (i) maintain a register (the "Register") on which the Administrative Agent will record the Commitments from time to time of each Lender, the advances made by each Lender and each repayment in respect of the principal amount of such advances of each Lender and to (ii) retain a copy of each Assignment and Assumption Agreement delivered to the Administrative Agent pursuant to this Section. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrower's obligation in respect of such advances. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent, the Issuing Lenders and the other Lenders shall treat each Person in whose name an advance is registered as the owner thereof for all purposes of this Agreement, notwithstanding notice or any provision herein to the contrary. With respect to any Lender, the assignment or other transfer of the Commitments of such Lender and the rights to the principal of, and interest on, any advance made pursuant to this Agreement shall not be effective until such assignment or other transfer is recorded on the Register and, except to the extent provided in this subsection 9.06(e), otherwise complies with Section 9.06, and prior to such recordation all amounts owing to the transferring Lender with respect to such Commitments shall remain owing to the transferring Lender. The registration of assignment or other transfer of all or part of any Commitments for a Lender shall be recorded by the Administrative Agent on the Register only upon the acceptance by the Administrative Agent of a properly executed and delivered Assignment and Assumption Agreement and payment of the administrative fee referred to in Section 9.06(c). The Register shall be available for inspection by each of the Borrower and each Issuing Lender at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Lender wishing to consult with other Lenders in connection therewith may request and receive from the Administrative Agent a copy of the Register. The Borrower may not replace any Lender pursuant to Section 2.04(b), unless, with respect to any Notes held by such Lender, the requirements of subsection 9.06(c) and this subsection 9.06(e) have been satisfied.

Section 9.07. 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 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 or the transactions contemplated hereby. 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.

Section 9.08. Counterparts; Integration; Effectiveness. This Agreement shall become effective on the Effective 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 Effective Date, this Agreement, the other Loan Documents and the Fee Letter 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 9.09. 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 Borrower's independent public accountants) with the audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries most recently delivered to the Lenders; provided, that, if the Borrower notifies the Administrative Agent that the Borrower wishes to amend any covenant in Article VI to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend Article VI for such purpose), then the Borrower'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 Borrower and the Required Lenders.

Section 9.10. Usage. The following rules of construction and usage shall be applicable to this Agreement and to any instrument or agreement that is governed by or referred to in this Agreement.

(a) All terms defined in this Agreement shall have the defined meanings when used in any instrument governed hereby or referred to herein and in any certificate or other document made or delivered pursuant hereto or thereto unless otherwise defined therein.

(b) The words "hereof", "herein", "hereunder" and words of similar import when used in this Agreement or in any instrument or agreement governed here shall be construed to refer to this Agreement or such instrument or agreement, as applicable, in its entirety and not to any particular provision or subdivision hereof or thereof.

(c) References in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, this Agreement unless the context otherwise requires; references in any instrument or agreement governed by or referred to in this Agreement to "Article", "Section", "Exhibit", "Schedule" or another subdivision or attachment shall be construed to refer to an article, section or other subdivision of, or an exhibit, schedule or other attachment to, such instrument or agreement unless the context otherwise requires.

(d) The definitions contained in this Agreement shall apply equally to the singular and plural forms of such terms. Whenever the context may require, any pronoun shall

include the corresponding masculine, feminine and neuter forms. The word “will” shall be construed to have the same meaning as the word “shall”. The term “including” shall be construed to have the same meaning as the phrase “including without limitation”.

(e) Unless the context otherwise requires, any definition of or reference to any agreement, instrument, statute or document contained in this Agreement or in any agreement or instrument that is governed by or referred to in this Agreement shall be construed (i) as referring to such agreement, instrument, statute or document as the same may be amended, supplemented or otherwise modified from time to time (subject to any restrictions on such amendments, supplements or modifications set forth in this Agreement or in any agreement or instrument governed by or referred to in this Agreement), including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and (ii) to include (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein. Any reference to any Person shall be construed to include such Person’s successors and permitted assigns.

(f) 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.

Section 9.11. WAIVER OF JURY TRIAL. THE BORROWER 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 9.12. Confidentiality. Each Lender 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 any Lender from disclosing such information (i) to any other Lender or to the Agent, (ii) to any other Person if reasonably incidental to the administration of the Letter of Credit Liabilities, (iii) upon the order of any court or administrative agency, (iv) 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), (v) which had been publicly disclosed other than as a result of a disclosure by the Agent or any Lender prohibited by this Agreement, (vi) in connection with any litigation to which the Agent, any Lender or any of their respective Subsidiaries or Affiliates may be party, (vii) to the extent necessary in connection with the exercise of any remedy hereunder, (viii) to such Lender’s or Agent’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), (ix) with the consent of the Borrower, (x) 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 (xi) subject to provisions substantially similar to those contained in this Section, to any actual or proposed Participant or Assignee or to any actual or prospective counterparty (or its advisors) to any securitization, swap or derivative transaction relating to the Borrower's Obligations hereunder. Notwithstanding the foregoing, the Agent, any Lender or Davis Polk & Wardwell 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 Borrower or its Affiliates, or any of them, and the amount, type and closing date of such transactions, all at their sole expense.

Section 9.13. USA PATRIOT Act Notice. Each Lender that is subject to the Patriot Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) 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)) (the "Patriot Act"), it is 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 such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Patriot Act.

Section 9.14. No Fiduciary Duty. The Agent, each Lender and their respective Affiliates (collectively, solely for purposes of this paragraph, the "Lender Parties"), may have economic interests that conflict with those of the Borrower, its Affiliates and/or their respective stockholders (collectively, solely for purposes of this paragraph, the "Borrower Parties"). The Borrower agrees that nothing in the Loan Documents 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 Lender Party, on the one hand, and any Borrower Party, on the other. The Lender Parties acknowledge and agree that (a) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm's-length commercial transactions between the Lender Parties, on the one hand, and the Borrower, on the other and (b) in connection therewith and with the process leading thereto, (i) no Lender Party has assumed an advisory or fiduciary responsibility in favor of any Borrower 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 Lender Party has advised, is currently advising or will advise any Borrower Party on other matters) or any other obligation to any Borrower Party except the obligations expressly set forth in the Loan Documents and (ii) each Lender Party is acting solely as principal and not as the agent or fiduciary of any Borrower Party. The Borrower acknowledges and agrees that the Borrower 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 Borrower agrees that it will not claim that any Lender Party has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to any Borrower Party, in connection with such transaction or the process leading thereto.

Section 9.15. Amendment And Restatement

(a) On the Amendment and Restatement Effective Date, without further action by any of the parties to the Original Letter of Credit Agreement, (i) the Original Letter of

Credit Agreement (excluding the appendices and exhibits thereto) will be automatically amended and restated to read as this Agreement reads, and (ii) Exhibits A, B and D hereto will be replaced by Exhibits A, B and D to the Amendment and Restatement Agreement and Exhibit C hereto will be deleted in its entirety. On and after the Amendment and Restatement Effective Date, the rights and obligations of all Lenders and the other parties hereto shall be governed by the provisions hereof; provided that the rights and obligations of the parties to the Original Letter of Credit Agreement with respect to the period before the Amendment and Restatement Effective Date shall continue to be governed by the provision thereof as in effect before the Amendment and Restatement Effective Date.

(b) The parties hereto and each Lender further acknowledge and agree that this Agreement constitutes an amendment of the Original Letter of Credit Agreement made under and in accordance with the terms of Section 9.05 of the Original Letter of Credit Agreement. The Borrower hereby acknowledges that it has reviewed the terms and provisions of this Agreement and consents to the amendment and restatement of the Original Letter of Credit Agreement effected pursuant to this Agreement. In addition, unless specifically amended or replaced as described herein or in the Amendment and Restatement Agreement, each of the Loan Documents, the Exhibits and Appendices to the Original Letter of Credit Agreement that was in effect immediately prior to the Amendment and Restatement Effective Date shall continue in full force and effect and that all of its obligations thereunder shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of the amendment and restatement of the Original Letter of Credit Agreement and that, from and after the Amendment and Restatement Effective Date, all references to the "Letter of Credit Agreement" or "thereof", "thereunder", "therein" or "thereby" or each similar reference to the Letter of Credit Agreement shall refer to this Agreement.

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[FORM OF REIMBURSEMENT AGREEMENT]

[Insert Date]

c/o [insert name of Issuing Bank],
as Issuing Bank

[Address]

Re: Letter of Credit Facility

Reference is hereby made to the \$198,309,583.05 Amended and Restated Letter of Credit Agreement (as amended, amended and restated, supplemented or modified from time to time, the “**Letter of Credit Agreement**”) dated as of August 16, 2012, among Kentucky Utilities Company (the “**Borrower**”), the lending institutions party thereto from time to time, Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, as Administrative Agent and Sumitomo Mitsui Banking Corporation, New York Branch, as Issuing Lender. Terms used herein and not otherwise defined herein have, as used herein, the respective meanings provided for in Section 18.

Section 1 . Issuance of Letter of Credit. The Borrower hereby requests that [insert name of Issuing Bank], in its capacity as an “Issuing Lender” under the Letter of Credit Agreement (the “**Issuing Bank**”) and upon the terms, subject to the conditions and relying upon the representations, warranties and covenants of the Borrower set forth in the Letter of Credit Agreement, issue a letter of credit to the Bond Trustee on the date hereof substantially in the form of Appendix I hereto (the “**Letter of Credit**”). The Letter of Credit constitutes a “Letter of Credit” for purposes of the Letter of Credit Agreement and an Issuing Bank is the “Issuing Lender” under the Letter of Credit Agreement with respect thereto, entitled to all of the rights, benefits and indemnities of an “Issuing Lender” under the Letter of Credit Agreement (including, without limitation, Article III and Section 9.03 of the Letter of Credit Agreement). This Agreement constitutes a “Reimbursement Agreement” for purposes of the Indenture.

Section 2 . Letter of Credit Drawings.

(a) As set forth in the Letter of Credit, the Bond Trustee is authorized to make drawings under the Letter of Credit in the manner and for the purposes specified in the Letter of Credit.

(b) All drawings to be made under the Letter of Credit shall be made by telecopier or other facsimile telecommunication in the form of the appropriate certificate submitted by the Bond Trustee addressed to the Issuing Bank pursuant to the terms of the Letter of Credit and no further presentation of documentation, including the original Letter of Credit, need be made; it being understood that the telecopier or other facsimile telecommunication shall, in all events, be considered to be the sole operative instrument of drawing. The Issuing Bank may rely upon any such telecopy or other facsimile telecommunication which it reasonably believes to have been dispatched by the Bond Trustee or its authorized agent.

(c) In the event that the Issuing Bank fails to honor, or elects not to honor, any drawing under the Letter of Credit requested by the Bond Trustee, the Issuing Bank shall transmit to the Borrower, by electronic mail or facsimile in accordance with Section 12, written notification thereof on the same day such failure or decision occurs or, if such day is not a Business Day, then it shall transmit such written notification on the first Business Day immediately following such day, provided that the Issuing Bank shall, simultaneously with the transmission of any written notification to the Bond Trustee, send to the Borrower a copy of such written notification.

Section 3 . Reimbursement of Drawings Under the Letter of Credit and Repayment of Loans Under the Letter of Credit Agreement; Reimbursement; Bond Custody Arrangements. (a) If the Issuing Bank shall pay a Drawing under the Letter of Credit or make a Loan under the Credit Agreement the Borrower shall reimburse the Issuing Bank the full amount of such Drawing or repay the full amount of such Loan in accordance with Section 3.07 or Section 2.11, as applicable, of the Letter of Credit Agreement (together with interest if, as and to the extent provided in the Letter of Credit Agreement).

(b) Upon each Liquidity Drawing there shall be delivered to the Custodian, as agent for the Issuing Bank, registered in the name of the Borrower but with the Issuing Bank registered as pledgee, in duly transferable form, the Bonds purchased with the proceeds of such Liquidity Drawing, i.e. the Custody Bonds (or in the alternative, as provided in the Custody Agreement for certificated Bonds held by The Depository Trust Company or its nominee or a similar securities depository, the Custodian shall cause its records in its capacity as a “DTC participant” or similar capacity with respect to another depository, to reflect beneficial ownership of the Custody Bonds by the Borrower subject to the lien and security interest of the Issuing Bank). As security for the obligations of the Borrower to reimburse the Issuing Bank for each Liquidity Drawing (or the obligations of the Borrower to repay any Loan made in respect thereof) (but without in any way limiting the obligation of the Borrower to reimburse the Issuing Bank for such Drawing or to repay such Loan as required by the Letter of Credit Agreement), the Borrower is pledging to the Issuing Bank pursuant to the Custody Agreement, and granting to the Issuing Bank, a first priority security interest in, all of its right, title and interest in and to all Custody Bonds arising in connection with a Liquidity Drawing and any proceeds of the foregoing.

(c) Upon reimbursement to the Issuing Bank of any Liquidity Drawing (or upon the repayment or any Loan made in respect thereof) (together with all accrued interest thereon and any other amounts owed to the Issuing Bank related thereto as provided in the Letter of Credit Agreement (collectively, the “**Obligations** ”)), the Issuing Bank (or the Custodian at the direction of the Issuing Bank) shall release from the pledge and security interest described herein the Custody Bonds purchased with the proceeds of such Liquidity Drawing. In the event of a partial repayment of a Liquidity Drawing, the Issuing Bank (or the Custodian at the direction of the Issuing Bank) shall release from the pledge and security interest described herein the Custody Bonds in an amount equal to such partial repayment.

(d) In the event Custody Bonds are remarketed pursuant to the Bond Indenture, the Issuing Bank (or the Custodian in accordance with the terms of the Custody Agreement) shall also release from the pledge and security interest evidenced by the Custody Agreement a principal amount of Custody Bonds equal to the principal amount of Bonds so remarketed. The Custody Bonds shall be released only upon receipt by the Issuing Bank or by the Bond Trustee for the account of the Issuing Bank as provided for in the Bond Indenture, of remarketing proceeds with respect to such remarketed Custody Bonds in an amount not less than the principal amount of the Custody Bonds, plus accrued interest thereon to the date of remarketing and any other amounts owed to the Issuing Bank related thereto.

(e) Any interest or any principal received by the Issuing Bank in respect of Custody Bonds shall be credited against the Obligations and applied by the Issuing Bank to any Obligations in accordance with the terms of the Letter of Credit Agreement.

Section 4 . Substitution of Letter of Credit; Transfer of Letter of Credit. (a) If the Bond Trustee shall partially reduce the Stated Amount pursuant to its notice to the Issuing Bank in the form of Exhibit G to the Letter of Credit, the Issuing Bank will deliver to the Borrower a copy of such notice. In addition, the Issuing Bank, in its sole discretion or at the direction of the Borrower (with which the Issuing Bank agrees to comply), shall then have the right to require the Bond Trustee to surrender the outstanding Letter of Credit to the Issuing Bank on the effective date of such partial reduction of the Stated Amount and to accept on such date, in substitution for the then outstanding Letter of Credit, a substitute irrevocable direct pay Letter of Credit, dated such date, for an amount equal to the amount to which the Stated Amount shall have been so reduced but otherwise having terms identical to the then outstanding Letter of Credit.

(b) The Borrower shall pay to the Issuing Bank, (i) upon the transfer of the Letter of Credit to any successor Bond Trustee, a \$2,000.00 transfer fee and (ii) upon demand, any cost or expense incurred in connection with such transfer. Receipt of such amounts shall not constitute consent by the Issuing Bank to effect such transfer.

Section 5 . Electronic Transmissions. (a) All directions and correspondence which includes communications relating to applications and requests shall be sent at the risk of the Borrower. The Issuing Bank does not assume any responsibility for any inaccuracy, interruption error or delay in transmission or delivery by post, telefax (including any transmission permitted as a Telefax under Section 5(b), below), except to the extent resulting from its gross negligence, willful misconduct or bad faith.

(b) In addition, the Borrower authorizes the Issuing Bank to accept and act upon any and all communications which may be received by the Issuing Bank from time to time by telefax, telecopier or digital image of an original document transmitted by email (including, without limitation, digital image in portable file document or imaging file document format; but excluding specifically any email communication or portion thereof not comprising a digital image of an original document) (any such communication hereinafter referred to as a "Telefax" or as "telefaxed") purporting to be signed by a person(s) authorized to enter into letter of credit financings on the Borrower's behalf ("**Authorized Signator(y)(ies)**"), other than to the extent constituting gross negligence, willful misconduct or bad faith. Specifically (but without limitation), the Issuing Bank is hereby authorized to accept and act upon Telefaxes of the following:

- (i) applications for standby letters of credit; and
- (ii) requests for any amendments to the foregoing.

Any application referred to in item (i) above, as amended, is referred to herein as an "application", any request referred to in item (ii) above, as amended, is referred to herein as a "request".

(c) The Borrower agrees to indemnify the Issuing Bank for, and hold the Issuing Bank harmless from and against, any and all liabilities, claims, suits, actions, damages, losses, judgments, reasonable expenses (including reasonable attorneys' fees and expenses) or any other consequence paid or incurred by, or imposed upon, the Issuing Bank to the extent arising out of, or based upon, or in any way relating to, any telefaxed application or request, proving not to have been given by the Borrower's Authorized Officers, absent the Issuing Bank's gross negligence, willful misconduct, or bad faith.

The Borrower further agrees that in the event of a dispute (including a dispute which is litigated or arbitrated) concerning any telefaxed correspondence, application or request by an Authorized Officer, any signature purporting to be that of an Authorized Officer on the telefaxed correspondence, application or request shall conclusively be deemed to be genuine and the Borrower waives the right to assert that any

signature on a telefaxed correspondence, application or request is a forgery, has been altered or is otherwise not genuine absent the Issuing Bank's gross negligence, willful misconduct or bad faith. The Issuing Bank shall have no responsibility to check any mail confirmations against any telefaxed correspondence, application or request transmitted to the Issuing Bank and may disregard such confirmations. Without limiting the foregoing in any manner, the Issuing Bank may, but shall not be obligated to, require authentication of such electronic transmission or to require that the Issuing Bank receive original documents prior to acting on such electronic transmission.

Section 6 . *Remedies.* Upon the occurrence and continuation of any Event of Default, the Issuing Bank may:

- (a) exercise its rights and remedies under the Letter of Credit Agreement;
- (b) pursuant and subject to the terms of the Bond Indenture, give written notice thereof to the Bond Trustee (which notice shall trigger the eventual occurrence of the Expiration Date as defined in the Letter of Credit), directing an acceleration of the Bonds pursuant to Section 9.02 of the Bond Indenture;
- (c) pursuant and subject to the terms of the Bond Indenture, direct the Bond Trustee to exercise its rights under the Bond Indenture; and
- (d) pursue any other action available at law or in equity.

Section 7 . *Amendments, Waivers and Consents.* Neither this Agreement, nor any other Security Document nor any of the terms hereof or thereof may be amended, changed, waived, discharged or terminated unless such amendment, change, waiver, discharge or termination is in writing and signed by the Issuing Bank and the Borrower.

Section 8 . *Preservation of Rights.* No delay or omission of the Issuing Bank to exercise any right under any Transaction Document shall impair such right or be construed to be a waiver of any Event of Default or an acquiescence thereto, and it is understood that the funding of a Drawing notwithstanding the existence of an Event of Default does not constitute any waiver or acquiescence. Any single or partial exercise of any such right shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of this Agreement or any Security Document whatsoever shall be valid unless in writing signed by the parties thereto (or consented to in writing by the Issuing Bank), and then only to the extent in such writing specifically set forth. All remedies contained in the Transaction Documents or by law afforded shall be cumulative and all shall be available to the Issuing Bank until the Obligations have been paid in full.

Section 9 . *Headings.* Section headings in this Agreement are for convenience of reference only, and shall not govern the interpretation of any of the provisions hereof.

Section 10 . *Severability of Provisions.* Any provision in this Agreement or any Security Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of this Agreement and the Security Documents are declared to be severable.

Section 11 . *Nonliability of Issuing Bank.* The relationship between the Borrower on the one hand and the Issuing Bank on the other hand shall be solely that of borrower and lender. The Issuing Bank shall have no fiduciary responsibilities to the Borrower except as contemplated hereunder. The Issuing Bank undertakes no responsibility to the Borrower to review or inform the Borrower of any matter in

connection with any phase of the Borrower's business or operations except as contemplated hereunder. The Borrower agrees that the Issuing Bank shall have no liability to the Borrower (whether sounding in tort, contract or otherwise) for losses suffered by the Borrower in connection with, arising out of, or in any way related to, the transactions contemplated and the relationship established by the Transaction Documents, or any act, omission or event occurring in connection therewith, unless it is determined in a final non-appealable judgment by a court of competent jurisdiction that such losses resulted from the breach of the Transaction Documents by, or the gross negligence, willful misconduct or bad faith of, the party from which recovery is sought. Each party hereto shall have no liability with respect to, and the other party hereto hereby waives, releases and agrees not to sue for, and no indemnified party hereunder shall be entitled to, any special, indirect, consequential or punitive damages suffered by the other party or indemnified party in connection with, arising out of, or in any way related to the Transaction Documents or the transactions contemplated thereby.

Section 12 . *Notices; Effectiveness.*

(a) *Notices Generally* . Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by fax/telecopier as follows:

(i) if to the Borrower:

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507
Attention: Treasurer
Telephone: (859) 367-1200
Facsimile: (859) 367-5839

With copies to:

Kentucky Utilities Company
One Quality Street
Lexington, Kentucky 40507
Attention: General Counsel
Telephone: 502-627-3665
Facsimile: 502-627-4622

PPL Services Corporation
Two North Ninth Street (GENTW4)
Allentown, Pennsylvania 18101-1179
Attention: Frederick C. Paine, Esq.
Telephone: 610-774-7445
Facsimile: 610-774-6726

PPL Services Corporation
Two North Ninth Street (GENTW14)
Allentown, Pennsylvania 18101-1179
Attention: Russell R. Clelland
Telephone: 610-774-5151
Facsimile: 610-774-5235

- (ii) if to the Issuing Bank:
Regarding credit matters:
Regarding L/C matters:
- (iii) if to the Remarketing Agent:
- (iv) if to the Bond Trustee:
- (v) if to the Custodian, to the same address as specified for the Bond Trustee.

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by fax/telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next Business Day for the recipient). The Issuing Bank shall provide the Borrower with a copy of any notice, certificate or other non-confidential communication sent by the Issuing Bank to the Bond Trustee or the Remarketing Agent.

(b) *Change of Address; Etc.* Any party hereto may change its address or fax/telecopier number for notices and other communications hereunder by notice to the other parties hereto.

Section 13 . *Counterparts; Effectiveness.* This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement shall become effective when it shall have been executed by the Borrower and the Issuing Bank and when the Issuing Bank shall have received counterparts hereof which, when taken together, bear the signatures of each of the parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by fax/telecopy shall be as effective as delivery of a manually executed counterpart of this Agreement.

Section 14 . *Survival of Agreement.* Anything herein to the contrary notwithstanding, this Agreement and the covenants, representations and warranties contained herein shall survive and remain in full force and effect so long as any Obligations remain outstanding hereunder and despite the surrender or termination of the Letter of Credit.

Section 15 . *Choice of Law.* THIS AGREEMENT SHALL BE DEEMED TO BE A CONTRACT UNDER, AND FOR ALL PURPOSES SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Section 16 . *Consent to Jurisdiction.* THE BORROWER HEREBY IRREVOCABLY (i) AGREES THAT ANY SUIT, ACTION OR OTHER PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT MAY BE BROUGHT IN ANY FEDERAL OR STATE COURT LOCATED IN NEW YORK, NEW YORK AND CONSENT TO THE JURISDICTION OF SUCH COURT IN ANY SUCH SUIT, ACTION OR PROCEEDING AND (ii) WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT OR THEY MAY HAVE TO THE LAYING OF VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING IN ANY SUCH COURT AND ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

Section 17 . *Waiver of Jury Trial.* THE PARTIES HERETO HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS AGREEMENT OR ANY RELATED DOCUMENT OR ANY SECURITY DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

Section 18 . *Definitions.* As used in this Agreement:

“ **Agreement** ” means this letter agreement, as the same may hereafter be amended, supplemented or restated and in effect from time to time.

“ **Appendix** ” refers to an Appendix to this Agreement unless another document is specifically referenced.

“ **Authorized Officer** ” means, with respect to the Borrower, any of its Executive Officers or any other person designated as an Authorized Officer by a certificate of the Borrower, signed by an Executive Officer and filed with the Issuing Bank.

“ **Bond Documents** ” means (collectively or any of the following individually as the context may require) the Bond Indenture, any Supplemental Indenture (as defined in the Bond Indenture), the Custody Agreement, the Loan Agreement (as defined in the Bond Indenture), the Bonds and the Remarketing Agreement (as defined in the Bond Indenture).

“ **Bonds** ” means the County of [Carroll, Kentucky, Environmental Facilities][Mercer, Kentucky, Solid Waste Disposal Facility] Revenue Bonds, [insert series designation] (“Kentucky Utilities Company Project”).

“ **Bond Indenture** ” means the Indenture of Trust between the County of [Carroll][Mercer], Kentucky as issuer and the Bond Trustee dated as of [insert date], as the same may be amended, supplemented, or restated from time to time, under which the Bonds have been issued.

“ **Bond Trustee** ” means the trustee at the time serving as such under the Bond Indenture, which as of the date of issuance of the Letter of Credit is [insert name of Trustee].

“ **Business Day** ” means any day except a Saturday, Sunday or other day on which commercial banks in New York, New York are authorized by law to close; provided, that, when used with respect to any action taken by or with respect to any Issuing Lender, the term “Business Day” shall not include any day on which commercial banks are authorized by law to close in the jurisdiction where the office at which such Issuing Lender books the Letter of Credit is located.

“ **Code** ” means the Internal Revenue Code of 1986, as amended, reformed or otherwise modified from time to time, and any successor statute thereof and any regulations promulgated thereunder.

“ **Custodian** ” means the Custodian with respect to Custody Bonds as designated pursuant to the Custody Agreement, which initially is the Bond Trustee.

“ **Custody Agreement** ” means the Custody, Pledge and Security Agreement dated as of [insert date] among the Custodian, the Borrower and the Issuing Bank with respect to Custody Bonds in the form of Appendix II to this Agreement, as amended from time to time.

“ **Custody Bond** ” means any Bond during the period from and including the date of its purchase with amounts realized under a Liquidity Drawing to but excluding the date on which such Bond is purchased by any Person as a result of a remarketing of such Bond pursuant to the Remarketing Agreement (as defined in the Bond Indenture) and the Bond Indenture.

“ **Drawing** ” means a drawing under the Letter of Credit resulting from the presentation of a certificate in the requisite form attached to the Letter of Credit.

“ **Event of Default** ” means an “Event of Default” as defined in the Letter of Credit Agreement.

“ **Expiration Date** ” has the meaning assigned to such term in the Letter of Credit.

“ **Issuing Bank** ” has the meaning assigned such term in the recitals hereto and shall include such Person’s successors and assigns.

“ **Letter of Credit** ” means the irrevocable transferable direct pay letter of credit issued by the Issuing Bank for the account of the Borrower in favor of the Bond Trustee in the form of Appendix I to this Agreement with appropriate insertions, as amended from time to time.

“ **Liquidity Drawing** ” means a drawing under the Letter of Credit resulting from the presentation of a certificate in the form of “Exhibit D” to the Letter of Credit.

“ **Loans** ” means “Loans” as defined in the Letter of Credit Agreement.

“ **Remarketing Agent** ” means, initially, [insert name of Remarketing Agent], and thereafter any remarketing agent at the time serving as such under the Remarketing Agreement (as defined in the Bond Indenture) and designated as the Remarketing Agent with respect to the Bonds for purposes of the Bond Indenture.

“ **Section** ” means a numbered section of this Agreement, unless another document is specifically referenced.

“ **Security Documents** ” means the Custody Agreement.

“ **Stated Amount** ” shall have the same meaning herein as in the Letter of Credit.

“ **Transaction Documents** ” means, collectively, this Agreement, the Bond Documents, the Security Documents and all other operative documents relating to the issuance, sale and securing of the Bonds (including without limitation any document(s) or instrument(s) through which the Bonds are now or hereafter collateralized, such as mortgages, security agreements, etc.).

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms. Other capitalized terms used herein but not defined herein shall have the meaning set forth in the Bond Indenture.

Section 19 . *Computation of Time Periods.* In this Agreement, in the computation of a period of time from a specified date to a later specified date, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding”.

Section 20 . *Accounting Terms.* All accounting terms not specifically defined herein shall be construed in accordance with GAAP consistently applied, except as otherwise stated herein.

Section 21 . *Interpretation.* The following rules shall apply to the construction of this Agreement unless the context requires otherwise: (a) the singular includes the plural and the plural, the singular; (b) words importing any gender include the other gender; (c) references to statutes are to be construed as including all statutory provisions consolidating, amending or replacing the statute to which reference is made; (d) references to “writing” include printing, photocopy, typing, lithography and other means of reproducing words in a tangible visible form; (e) the words “including” “includes” and “include” shall be deemed to be followed by the words “without limitation”; (f) references to articles, sections (or sub-divisions of sections), exhibits, appendices, annexes or schedules are to those of this Agreement unless otherwise indicated; (g) references to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications to such instruments, but only to the extent that such amendments and other modifications are permitted or not prohibited by the terms of this Agreement; (h) references to Persons include their respective permitted successors and assigns; and (i) headings herein are solely for the convenience of reference and shall not constitute a part of this Agreement nor shall they affect its meaning, construction or effect.

All references in this Agreement to times of day shall be references to New York, New York time unless otherwise specified.

[signatures follow]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

KENTUCKY UTILITIES COMPANY

By:

Name:

Title:

[Signature page to Reimbursement Agreement]

[ISSUING BANK], as Issuing Bank

By:

Name:

Title:

**FORM OF
IRREVOCABLE TRANSFERABLE DIRECT PAY LETTER OF CREDIT**

[Insert Date]

Stated Amount: **U.S. \$[insert amount]**

Letter of Credit No. [insert number]

[Insert name of Trustee], as Trustee (the “Bond Trustee”) under the Indenture of Trust (the “Indenture”) dated as of [Insert date], between the County of [Carroll][Mercer], Kentucky and the Bond Trustee

[Insert Address]

Attn: [Insert Name/Department]

Ladies and Gentlemen:

We SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH (the “Issuing Bank”) hereby establish in your favor as Bond Trustee for the benefit of the holders of the Bonds (as hereinafter defined), our irrevocable transferable direct pay Letter of Credit No. [insert number] (this “Letter of Credit”) for the account of KENTUCKY UTILITIES COMPANY, a corporation organized under the laws of the Commonwealths of Kentucky and Virginia (the “Borrower” or the “Applicant”). Capitalized terms used herein, including those in the attached Exhibits, and not otherwise defined herein shall have the same meanings herein as in the \$198,309,583.05 Amended and Restated Letter of Credit Agreement (as amended, amended and restated, supplemented or modified from time to time, the “Letter of Credit Agreement”), dated as of August 16, 2012, among Kentucky Utilities Company, the lending institutions party thereto from time to time, Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, as Administrative Agent and Sumitomo Mitsui Banking Corporation, New York Branch, as Issuing Lender. We hereby irrevocably authorize you to draw on us from time to time, from and after the date hereof to and including the earliest to occur of (the “Expiration Date”):

- (i) our close of business on [insert first anniversary of issue date] (such date, as extended from time to time in accordance herewith pursuant to a Notice of Extension in the form set forth as Exhibit I hereto, the “Stated Expiration Date”),
 - (ii) our close of business on the date which is five Business Days following our receipt from you of a certificate in the form set forth as Exhibit A-1 hereto accompanied by the original of this Letter of Credit (including any amendments thereto),
-

(iii) our close of business on the date of our receipt from you of a certificate in the form set forth as Exhibit A-2 hereto accompanied by the original of this Letter of Credit (including any amendments thereto),

(iv) the date upon which an Acceleration Drawing Certificate in the form of Exhibit E hereto is received and honored by us, and

(iv) our close of business on the date which is thirty (30) days after your receipt of written notice from us in the form set forth as Exhibit A-3 hereto,

a maximum aggregate amount not exceeding [FACE AMOUNT OF LETTER OF CREDIT WRITTEN OUT] (U.S. \$[Insert amount]) (the “Original Stated Amount”; such Original Stated Amount, as reduced or reinstated from time to time in accordance herewith, being the “Stated Amount”) to pay principal of and accrued interest on, or the purchase price of, the \$[Insert amount] outstanding principal amount of County of [Carroll, Kentucky, Environmental Facilities][Mercer, Kentucky, Solid Waste Disposal Facility] Revenue Bonds, [Insert Series] (Kentucky Utilities Company Project) (the “Bonds”), which Bonds were issued pursuant to the Indenture (said U.S. \$[Insert amount] having been initially calculated to be equal to U.S. \$[Insert amount], the principal amount of the Bonds outstanding as of the date hereof, plus U.S. \$[Insert amount], which is 45 days’ accrued interest on said principal amount of the Bonds calculated at an interest rate of [] percent ([]%) per annum calculated on the basis of actual days elapsed in a year of three hundred sixty-five (365) days); provided that no drawings shall be made under this Letter of Credit for any payment of any amount arising, directly or indirectly, under, pursuant to or in connection with any Bond (A) during the period from and including the date of its purchase with amounts realized under a Liquidity Drawing (as defined herein) to but excluding the date on which such Bond is purchased by a Person as a result of a remarketing of such Bond pursuant to the Remarketing Agreement and the Indenture (a “Custody Bond”) or (B) which is held by or on behalf of the Borrower or any Affiliate of the Borrower (each of (A) and (B), an “Ineligible Bond”).

Funds under this Letter of Credit are available to the Bond Trustee against the Bond Trustee’s presentation of the following certificates which shall be made by telecopier at (212) 224-4566, Attention: ATTENTION: TRADE CREDIT SERVICES DEPARTMENT, without further need of documentation (including the original of this Letter of Credit), it being understood that each certificate so submitted is to be the sole operative instrument of drawing. You shall use your best efforts to give telephonic notice of a drawing to the Issuing Bank at: [Insert Number], on the Business Day preceding the day of such drawing (but such notice shall not be a condition to drawing hereunder and you shall have no liability for not doing so) or at any other office or offices or number or numbers which may be designated by the Issuing Bank by written notice delivered to the Bond Trustee. Each demand for payment under this Letter of Credit shall be made under:

(i) a certificate in the form attached as Exhibit B hereto to pay accrued interest on the Bonds as provided for under Section 2.02 of the Indenture (an “Interest Drawing”),

(ii) a certificate in the form attached as Exhibit C hereto to pay the principal amount of and, in the event the redemption date does not coincide with the regularly scheduled interest payment date for the Bonds, accrued interest on the Bonds in respect of any

redemption of the Bonds, as provided for in Section 4.01 of the Indenture (a “ Redemption Drawing ”),

(iii) a certificate in the form attached as Exhibit D hereto, to pay the purchase price of Bonds for which you have received a notice from the Remarketing Agent of a failed remarketing, or for which you have not timely received actual remarketing proceeds by the Business Day immediately preceding the applicable Purchase Date (as such term is defined in Exhibit D) as required pursuant to Section 3.02 of the Indenture (a “ Liquidity Drawing ”),

(iv) a certificate in the form attached as Exhibit E hereto, to pay the principal of, and accrued interest in respect of, any Bonds the payment of which has been accelerated pursuant to Section 9.02 of the Indenture (an “ Acceleration Drawing ”), or

(v) a certificate in the form attached as Exhibit F hereto to pay the principal amount of the Bonds on the stated maturity date specified in such Bonds as the date on which the principal of such Bonds is due and payable (a “ Stated Maturity Drawing ”),

each such certificate to be executed by your duly authorized officer and be dated the date such certificate is presented hereunder.

We agree to honor and pay the amount of any Interest, Redemption, Liquidity, Acceleration and Stated Maturity Drawing if presented in compliance with all of the terms of this Letter of Credit. If such drawing is presented at or prior to 4:00 p.m., prevailing New York City time, on a Business Day, payment shall be made to the account number or address designated by you of the amount specified, in immediately available funds, not later than 12:00 Noon, prevailing New York City time, on the following Business Day. If such drawing is presented after 4:00 p.m., prevailing New York City time, on a Business Day, payment shall be made to the account number or address designated by you of the amount specified, in immediately available funds, not later than 5:00 p.m., prevailing New York City time, on the following Business Day. As used herein, “ Business Day ” means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks located in New York, New York or the city or cities in which are located the corporate trust office or payment office of the Bond Trustee, the Borrower, the Issuing Bank or the Remarketing Agent are authorized by law to close and (iii) a day on which the New York Stock Exchange is closed.

The Available Amount (as hereinafter defined) will be reduced automatically by the amount of any drawing hereunder; *provided, however*, that the amount of any Interest Drawing hereunder shall be automatically reinstated effective on the earlier of (x) receipt by the Issuing Bank from the Borrower of reimbursement of any Interest Drawing in full or (y) at the opening of business on the eleventh (11th) calendar day after the date we honor such drawing, unless, in the case of clause (y), you shall have received written notice from us (which notice may be by facsimile transmission), given in the Issuing Bank’s sole discretion, not later than the close of business on the tenth (10th) calendar day after the date we honor such drawing that the Issuing Bank is not so reinstating the Available Amount due to the Borrower’s failure to reimburse us for such Interest Drawing in full, or that an event of default has occurred and is continuing under the Letter of Credit Agreement and, in either case, directing, an acceleration of the Bonds pursuant to the Indenture. After payment by us of a Liquidity Drawing, the obligation of the Issuing Bank to honor drawings under this Letter of Credit will be automatically reduced by an amount equal to the Original Purchase Price (as defined below) of any Bonds (or portions

thereof) purchased pursuant to said drawing. In addition, in the event of the remarketing of the Bonds (or portions thereof) previously purchased with the proceeds of a Liquidity Drawing, our obligation to honor drawings hereunder shall be automatically reinstated concurrently upon receipt by the Issuing Bank, or the Bond Trustee on the Issuing Bank's behalf, of an amount equal to the Original Purchase Price of such Bonds (or portion thereof) plus accrued interest thereon as required under the Reimbursement Agreement dated as of [Insert date of Reimbursement Agreement] between Borrower and the Issuing Bank as specified in a certificate in the form of Exhibit J hereto (a "Reinstatement Certificate"); the amount of such reinstatement shall be equal to the Original Purchase Price of such Bonds (or portions thereof) so received by the Issuing Bank, or the Bond Trustee on the Issuing Bank's behalf. It is understood that the Bond Trustee is obligated to remit such proceeds to the Issuing Bank concurrently with the presentation of the Reinstatement Certificate.

As used herein:

"Original Purchase Price" shall mean the principal amount of any Bond purchased with the proceeds of a Liquidity Drawing plus the amount of accrued interest on such Bond paid with the proceeds of a Liquidity Drawing (and not pursuant to an Interest Drawing) upon such purchase.

"Available Amount" shall mean the Original Stated Amount (i) less the amount of all prior reductions pursuant to Interest, Redemption, Liquidity, Acceleration or Stated Maturity Drawings, (ii) less the amount of any reduction thereof pursuant to a Redemption Drawing or reduction certificate in the form of Exhibit G hereto (a "Reduction Certificate"), respectively, to the extent such reduction is not already accounted for by a reduction in the Available Amount pursuant to (i) above, (iii) plus the amount of all reinstatements as above provided.

The Stated Amount of this Letter of Credit shall be automatically and permanently reduced from time to time as of the second Business Day following the date of our receipt of a Reduction Certificate from the Bond Trustee to the amount specified in such Reduction Certificate as the amount to which the Stated Amount is to be so reduced. Upon our receipt of such Reduction Certificate, we may deliver to you a substitute letter of credit in exchange for this Letter of Credit. If we deliver to you such a substitute letter of credit, you shall simultaneously surrender to us for cancellation this original Letter of Credit and any amendment thereto then in your possession.

Prior to the Expiration Date, we may (but are not obligated to) extend the Stated Expiration Date from time to time at the request of the Borrower by delivering to you an amendment to this Letter of Credit in the form of Exhibit I hereto (a "Notice of Extension") (appropriately completed) designating the date to which the Stated Expiration Date is being extended. Each such extension of the Stated Expiration Date shall become effective on the issue date of such notice, and thereafter all references in this Letter of Credit to the Stated Expiration Date shall be deemed to be references to the date designated as such in such notice. Any date to which the Stated Expiration Date has been extended as herein provided may itself be extended in a like manner.

Upon our close of business on the Expiration Date this Letter of Credit shall automatically terminate, and (if not fully drawn) you agree to promptly deliver the same to the Issuing Bank for

cancellation. Failure to deliver said Letter of Credit (including any amendments thereto) will have no effect on such termination, and the Letter of Credit will still be considered terminated upon our close of business on the Expiration Date.

This Letter of Credit is transferable in its entirety (but not in part) to any transferee who has succeeded you as Bond Trustee under the Indenture, and may be successively transferred. Any transfer request must be affected by presenting to us the attached form of Exhibit H hereto signed by the transferor and the transferee together with the original of this Letter of Credit and amendments hereto, if any. Transfers to designated foreign nationals and/or specially designated nationals are not permitted as being contrary to the U.S. Treasury Department statutory rules including its Foreign Assets Control Regulations. Upon our endorsement of such transfer on the Letter of Credit or, at our discretion, the issuance to the transferee of a replacement Letter of Credit with terms and conditions similar hereto, the transferee instead of the transferor, without the necessity of further action, shall be entitled to all the benefits of and rights under this Letter of Credit in the transferor's place; provided that, in such case, any certificates of the Bond Trustee to be provided hereunder shall be signed by one who states therein that he is a duly authorized officer of the transferee.

Communications with respect to this Letter of Credit shall be addressed to us at SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH, Attention: TRADE CREDIT SERVICES DEPARTMENT _____, specifically referring to the number of this Letter of Credit. For telephone assistance, please contact Antoinette Pontecorvo at (212) 224-4856, and have this Letter of Credit number available. Any communication to the Issuing Bank which is made by telecopier as permitted hereby shall be deemed operative without the necessity to provide written confirmation of such transmission by telecopier.

Except as expressly stated herein, this Letter of Credit is governed by, and construed in accordance with the International Standby Practices, ICC Publication No. 590 (the "ISP98"). As to matters not governed by the ISP98, this Letter of Credit shall be governed by and construed in accordance with the laws of the State of New York, including without limitation the Uniform Commercial Code as in effect in the State of New York, without regard to principles of conflict of laws.

All payments made by us hereunder shall be made from our own funds; in no event shall such payment be made with funds obtained from the Borrower.

This Letter of Credit sets forth in full the terms of our undertaking, and such undertaking shall not in any way be modified or amended by reference to any other document whatsoever, except for ISP98.

[signature pages follow]

SUMITOMO MITSUI BANKING
CORPORATION, NEW YORK BRANCH

By: MASAKAZU HASEGAWA
Title: GENERAL MANAGER

[Signature Page to Letter of Credit]

[ISSUING BANK]

LETTER OF CREDIT

No. _____

CERTIFICATE OF TERMINATION

SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
as Issuing Lender
277 Park Avenue
New York, NY 10172
ATTENTION: TRADE CREDIT SERVICES DEPARTMENT
Telephone: (212) 224-4310
Facsimile: (212) 224-4566

Dear Sirs:

Reference is hereby made to that certain Irrevocable Transferable Direct Pay Letter of Credit No. _____ dated [date] (the “Letter of Credit”), which has been established by you for the account of Kentucky Utilities Company in favor of the Bond Trustee (as defined in the Letter of Credit).

The undersigned hereby certifies and confirms that [no Bonds (as defined in the Letter of Credit) remain Outstanding within the meaning of the Indenture (as defined in the Letter of Credit)] [all drawings required to be made under the Indenture (as defined in the Letter of Credit) and available under the Letter of Credit have been made and honored] [an Alternate Credit Facility (as defined in the Indenture referred to in and defined in the Letter of Credit) has been delivered to the Bond Trustee in accordance with Section 14.03 of the Indenture to replace the Letter of Credit] [all of the outstanding Bonds (as defined in the Letter of Credit) were converted to Bonds bearing interest at a rate other than the Daily Rate or the Weekly Rate (as defined in the Indenture referred to in and defined in the Letter of Credit)] and, accordingly, said Letter of Credit shall be terminated in accordance with its terms.

The original Letter of Credit (including all amendments thereto) is returned herewith for cancellation.

IN WITNESS WHEREOF, this Certificate has been executed this ____ day of _____, _____.



EXHIBIT A-1

to

[ISSUING BANK]

LETTER OF CREDIT

No. _____

[TRUSTEE],
as Bond Trustee

By:
[Title of Authorized Officer]

to

[ISSUING BANK]

LETTER OF CREDIT

No. _____

CERTIFICATE OF TERMINATION

SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
as Issuing Lender
277 Park Avenue
New York, NY 10172
ATTENTION: TRADE CREDIT SERVICES DEPARTMENT
Telephone: (212) 224-4310
Facsimile: (212) 224-4566

Dear Sirs:

Reference is hereby made to that certain Irrevocable Transferable Direct Pay Letter of Credit No. _____ dated [date] (the “Letter of Credit”), which has been established by you for the account of Kentucky Utilities Company in favor of the Bond Trustee (as defined in the Letter of Credit).

The undersigned hereby certifies and confirms that the Bond Trustee is required to terminate the Letter of Credit in accordance with the terms of the Indenture (as defined in the Letter of Credit) and, accordingly, said Letter of Credit shall be terminated in accordance with its terms.

The original Letter of Credit (including all amendments thereto) is returned herewith for cancellation.

IN WITNESS WHEREOF, this Certificate has been executed this ____ day of _____, _____.

[TRUSTEE],
as Bond Trustee

By:
[Title of Authorized Officer]



to

[ISSUING BANK]

LETTER OF CREDIT

No. _____

NOTICE OF EVENT OF DEFAULT

[Trustee], as Trustee (the “ Bond Trustee ”) under the Indenture of Trust (the “ Indenture ”) dated [date], between the County of [Carroll] [Mercer], Kentucky and the Bond Trustee

[Address]

Attn:

Ladies and Gentlemen:

Reference is hereby made to that certain Irrevocable Transferable Letter of Credit No. _____ dated [date] (the “ Letter of Credit ”), established by the Issuing Bank (as defined in the Letter of Credit) in your favor as Bond Trustee under the Indenture. We hereby notify you that an Event of Default under the terms of that certain \$198,309,583.05 Amended and Restated Letter of Credit Agreement (as amended, amended and restated, supplemented or modified from time to time, the “ Letter of Credit Agreement ”), dated as of August 16, 2012 among Kentucky Utilities Company, the lending institutions party thereto from time to time, Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, as Administrative Agent and Sumitomo Mitsui Banking Corporation, New York Branch, as Issuing Lender, has occurred.

We hereby direct you to draw the entire Available Amount of (and as defined in) the Letter of Credit as an acceleration of the Bonds in accordance with Section 9.02 of the Indenture.

All capitalized terms used herein and not otherwise defined herein shall have the same meanings herein as in the Letter of Credit.

IN WITNESS WHEREOF, this Certificate has been executed this ____ day of _____, _____.

SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH

By: [Title of Authorized Officer]



INTEREST DRAWING CERTIFICATE

SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH

as Issuing Lender

277 Park Avenue

New York, NY 10172

ATTENTION: TRADE CREDIT SERVICES DEPARTMENT

Telephone: (212) 224-4310

Facsimile: (212) 224-4566

[Trustee], as Bond Trustee (the “Beneficiary”), hereby CERTIFIES as follows with respect to (i) that certain Irrevocable Transferable Direct Pay Letter of Credit No. _____ dated [date] (the “Letter of Credit”), issued by [Issuing Bank] in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Bond Trustee under the Indenture.

2. The Beneficiary is entitled to make this drawing in the amount of \$ _____ under the Letter of Credit pursuant to the Indenture with respect to the payment of interest due on all Bonds outstanding on the Interest Payment Date occurring on [insert applicable date] other than Ineligible Bonds (as such term is defined in the Letter of Credit).

3. The amount of this drawing is equal to the amount required to be drawn by the Beneficiary pursuant to Section 6.02 of the Indenture.

4. The amount of this drawing was computed in compliance with the terms of the Indenture and, when added to the amount of any other drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount of (and as defined in) the Letter of Credit as presently in effect.

5. Payment by SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.



6. The amount hereby demanded will not be applied to any payment in respect of Ineligible Bonds.

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, ____.

[TRUSTEE], as Bond Trustee

By:

[Title of Authorized Officer]

REDEMPTION DRAWING CERTIFICATE

SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
as Issuing Lender
277 Park Avenue
New York, NY 10172
ATTENTION: TRADE CREDIT SERVICES DEPARTMENT
Telephone: (212) 224-4310
Facsimile: (212) 224-4566

[Trustee], as Bond Trustee (the “Beneficiary”), hereby CERTIFIES as follows with respect to (i) that certain Irrevocable Transferable Direct Pay Letter of Credit No. _____ dated [date] (the “Letter of Credit”), issued by [Issuing Bank] (the “Issuing Bank”) in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

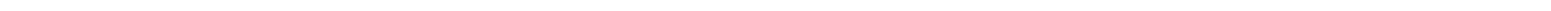
1. The Beneficiary is the Bond Trustee under the Indenture.

2. The Beneficiary is entitled to make this drawing in the amount of \$_____ under the Letter of Credit pursuant to Section 4.01 of the Indenture.

3. (a) The amount of this drawing is equal to (i) the principal amount of Bonds other than Ineligible Bonds (as such term is defined in the Letter of Credit) to be redeemed by the Borrower pursuant to Section 4.04 of the Indenture on [insert applicable date] (the “Redemption Date”), plus (ii) in the event such redemption date does not coincide with a regularly scheduled Interest Payment Date (as defined in the Indenture), interest accrued on such Bonds from the immediately preceding Interest Payment Date to the redemption date.

(b) Of the amount stated in paragraph 2 above:

(i) \$_____ is demanded in respect of the principal amount of the Bonds referred to in subparagraph (a) above;
and



(ii) \$_____ is demanded in respect of accrued interest on such Bonds.

4. The amount of this drawing was computed in compliance with the terms and conditions of the Indenture and, when added to the amount of any other drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount of (and as defined in) the Letter of Credit.

5. The Issuing Bank is hereby instructed following the honor of this drawing, and in accordance with the terms of the Letter of Credit, to reduce the Stated Amount by \$_____ [insert applicable amount] which amount represents the amount of excess interest coverage under the Letter of Credit (computed in respect of the outstanding principal amount of the Bonds at an assumed interest rate of fifteen percent (15%) per annum for a period of 45 days based on a year of 365 days) no longer necessary as a result of the redemption of Bonds with the proceeds of this drawing, and, if applicable, taking into account any permanent reduction in the Stated Amount occasioned by the payment of accrued interest on such redeemed Bonds through an Interest Drawing (as defined in the Letter of Credit) and not through the drawing effected by this Certificate.

6. Payment by SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH, pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, ____.

[TRUSTEE], as Bond Trustee

By:
[Title of Authorized Officer]

LIQUIDITY DRAWING CERTIFICATE

SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
as Issuing Lender
277 Park Avenue
New York, NY 10172
ATTENTION: TRADE CREDIT SERVICES DEPARTMENT
Telephone: (212) 224-4310
Facsimile: (212) 224-4566

[Trustee], as Bond Trustee (the “Beneficiary”), hereby CERTIFIES as follows with respect to (i) that certain Irrevocable Transferable Direct Pay Letter of Credit No. _____ dated [date] (the “Letter of Credit”), issued by [Issuing Bank] (the “Issuing Bank”) in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Bond Trustee under the Indenture.

2. The Beneficiary is entitled to make this drawing under the Letter of Credit in the amount of \$_____ with respect to Bonds tendered pursuant to Section 3.01 of the Indenture, remarketing proceeds for which were not timely received by the Bond Trustee by the Business Day immediately preceding _____ (the “Purchase Date”).

3. (a) The amount of this drawing is equal to (i) the principal amount of Bonds, other than Ineligible Bonds (as such term is defined in the Letter of Credit), for which the Bond Trustee has not timely received actual remarketing proceeds by the Business Day immediately preceding the applicable Purchase Date as provided for in Section 3.03 of the Indenture, plus (ii) interest on such Bonds accrued from the immediately preceding Interest Payment Date to the Purchase Date.

(b) Of the amount stated in paragraph 2 above:

(i) \$_____ is demanded in respect of the principal portion of the purchase price of the Bonds referred to in subparagraph (a) above; and

(ii) \$ _____ is demanded in respect of payment of the interest portion of the purchase price of such Bonds.

4. The amount of this drawing was computed in compliance with the terms and conditions of the Indenture and, when added to the amount of any other drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount of (and as defined in) the Letter of Credit as presently in effect.

5. The Beneficiary will register or cause to be registered in the name of the Borrower or the Bond Trustee, but with the Issuing Bank registered as pledgee, upon payment of the amount drawn hereunder, Bonds in the principal amount of the Bonds being purchased with the amounts drawn hereunder and will deliver such Bonds to the Beneficiary, in its capacity as Custodian under (and as defined in) the Custody, Pledge and Security Agreement dated as of [date], among Kentucky Utilities Company, as pledgor, [Issuing Bank], as Issuing Bank and pledgee, and the Beneficiary, as custodian ; provided, however, if The Depository Trust Company or its nominee, or a similar securities depository, is the registered owner of all Bonds, the Beneficiary acknowledges that it will cause the security interest of the Issuing Bank to be recorded by such depository on its books or, if the Beneficiary is a participant with respect to such depository, on its own books.

6. Payment by SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, ____.

[TRUSTEE], as Bond Trustee

By:
[Title of Authorized Officer]

ACCELERATION DRAWING CERTIFICATE

SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
as Issuing Lender
277 Park Avenue
New York, NY 10172
ATTENTION: TRADE CREDIT SERVICES DEPARTMENT
Telephone: (212) 224-4310
Facsimile: (212) 224-4566

[Trustee], as Bond Trustee (the “Beneficiary”), hereby CERTIFIES as follows with respect to (i) that certain Irrevocable Transferable Direct Pay Letter of Credit No. _____ dated [date] (the “Letter of Credit”), issued by [Issuing Bank] in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Bond Trustee under the Indenture.

2. An Event of Default has occurred under Section 9.01() of the Indenture, and the Bond Trustee has declared the principal of and accrued interest on all Bonds then outstanding immediately due and payable. The Beneficiary is entitled to make this drawing in the amount of \$ _____ under the Letter of Credit pursuant to Section 9.02 of the Indenture.

3. (a) The amount of this drawing is equal to (i) the principal amount of Bonds, other than Ineligible Bonds (as such term is defined in the Letter of Credit), outstanding on _____ (the “Acceleration Date”) plus (ii) interest on such Bonds accrued from the immediately preceding Interest Payment Date (as defined in the Letter of Credit) to the Acceleration Date.

(b) Of the amount stated in paragraph 2 above:

(i) \$ _____ is demanded in respect of the principal of the Bonds referred to in subparagraph (a) above; and



(ii) \$_____ is demanded in respect of accrued interest on such Bonds.

4. The amount of this drawing was computed in compliance with the terms and conditions of the Indenture and does not exceed the Available Amount of (and as defined in) the Letter of Credit.

5. Payment by SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

6. The original Letter of Credit (including any amendments thereto) is being delivered to you by overnight mail for cancellation. Failure to deliver said Letter of Credit will have no effect on its termination, and the Letter of Credit will still be considered terminated upon our receipt of the amount demanded in paragraph 2 above.

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, ____.

[TRUSTEE], as Bond Trustee

By:
[Title of Authorized Officer]

STATED MATURITY DRAWING CERTIFICATE

SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH

as Issuing Lender

277 Park Avenue

New York, NY 10172

ATTENTION: TRADE CREDIT SERVICES DEPARTMENT

Telephone: (212) 224-4310

Facsimile: (212) 224-4566

[Trustee], as Bond Trustee (the “Beneficiary”), hereby CERTIFIES as follows with respect to (i) that certain Irrevocable Transferable Direct Pay Letter of Credit No. _____ dated [date] (the “Letter of Credit”), issued by [Issuing Bank] in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Bond Trustee under the Indenture.

2. The Beneficiary is entitled to make this drawing in the amount of \$_____ under the Letter of Credit pursuant to the Indenture. The amount of this drawing is equal to the principal amount of Bonds (excluding any Ineligible Bonds (as such term is defined in the Letter of Credit)) with a Stated Maturity (under and as set forth in such Bonds) on _____.

3. The amount of this drawing was computed in compliance with the terms and conditions of the Indenture and, when added to the amount of any other drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount of (and as defined in) the Letter of Credit.

4. Payment by SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.



IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, ____.

[TRUSTEE], as Bond Trustee

By:
[Title of Authorized Officer]

[ISSUING BANK]

LETTER OF CREDIT

No. _____

REDUCTION CERTIFICATE

SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
as Issuing Lender
277 Park Avenue
New York, NY 10172
ATTENTION: TRADE CREDIT SERVICES DEPARTMENT
Telephone: (212) 224-4310
Facsimile: (212) 224-4566

Deutsche Bank Trust Company Americas, as Bond Trustee (the "Beneficiary"), hereby CERTIFIES as follows with respect to (i) that certain Irrevocable Transferable Direct Pay Letter of Credit No. _____ dated [date] (the "Letter of Credit"), issued by [Issuing Bank] (the "Issuing Bank") in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Bond Trustee under the Indenture.

2. Effective on _____, _____ (which shall be at least two (2) Business Days (as defined in the Letter of Credit) following receipt by the Issuing Bank of this Certificate, the Stated Amount (as defined in the Letter of Credit) shall be reduced by \$_____, and the Stated Amount shall thereupon equal \$_____, of which amount \$_____ is applicable to principal on the Bonds and of which amount \$_____ is applicable to interest on the Bonds (as described in the Letter of Credit), all in accordance with the provisions of the Indenture.

In WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, ____.

[TRUSTEE], as Bond Trustee

By:
[Title of Authorized Officer]



to

[ISSUING BANK]

LETTER OF CREDIT

No. _____

REQUEST FOR TRANSFER

SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
as Issuing Lender
277 Park Avenue
New York, NY 10172
ATTENTION: TRADE CREDIT SERVICES DEPARTMENT
Telephone: (212) 224-4310
Facsimile: (212) 224-4566

Re: Irrevocable Standby Letter of Credit No. _____

We, the undersigned "Transferor", hereby irrevocably transfer all of our rights to draw under the above referenced Letter of Credit ("Credit") in its entirety to:

NAME OF TRANSFEREE

(Print Name and complete address of the Transferee) "Transferee"

ADDRESS OF TRANSFEREE

CITY, STATE/COUNTRY ZIP

In accordance with ISP98, Rule 6, regarding transfer of drawing rights, all rights of the undersigned Transferor in such Credit are transferred to the Transferee, who shall have the sole rights as beneficiary thereof, including sole rights relating to any amendments whether increases or extensions or other amendments and whether now existing or hereafter made. All amendments are to be advised directly to the Transferee without necessity of any consent of or notice to the undersigned Transferor.

The original Credit, including amendments to this date, if any, are attached and the undersigned Transferor requests that you endorse an acknowledgment of this transfer on the reverse thereof or, at your discretion, issue a replacement Letter of Credit with terms and conditions similar thereto. The undersigned Transferor requests that you notify the Transferee of this Credit in such form and manner as you deem appropriate, and the terms and conditions of the Credit as transferred. The undersigned Transferor acknowledges that you incur no obligation hereunder and that the transfer shall not be effective until you have expressly consented to effect the transfer by notice to the Transferee.

If you agree to these instructions, please advise the Transferee of the terms and conditions of this transferred Credit and these instructions.

Transferor represents and warrants to Transferring Bank that our execution, delivery, and performance of this request to Transfer (a) are within our powers, (b) have been duly authorized, (c) constitute our legal, valid, binding and enforceable obligation, (d) do not contravene any charter provision, by-law, resolution, material contract or other undertaking binding on or affecting us or any of our properties, (e) do not require any notice, filing or other action to, with, or by any governmental authority (f) the enclosed Credit is original and complete, (g) there is no outstanding demand or request for payment or transfer under the Credit affecting

the rights to be transferred, and (h) the Transferee's name and address are correct and complete and the Transferee's use of the Credit as transferred and the transactions underlying the Credit and the requested Transfer do not violate any United States or other law, rule or regulation.

The Effective Date shall be the date hereafter on which Transferring Bank effects the requested transfer by acknowledging this request and giving notice thereof to Transferee.

WE WAIVE ANY RIGHT TO TRIAL BY JURY THAT WE MAY HAVE IN ANY ACTION OR PROCEEDING RELATING TO OR ARISING OUT OF THIS TRANSFER.

This Request is made subject to ISP98 and is subject to and shall be governed by the law of the State of New York, without regard to principles of conflict of laws.

Sincerely yours,

(Print Name of Transferor)

(Transferor's Authorized Signature)

(Print Authorized Signers Name and Title)

(Telephone Number/Fax Number)

(a) SIGNATURE GUARANTEED

Signature(s) with title(s) conform(s) with that/those on file with us for this individual, entity or company and signer(s) is/are authorized to execute this agreement. We attest that the individual, company or entity has been identified by us in compliance with USA PATRIOT Act procedures of our bank.

(Print Name of Bank)

(Address of Bank)

(City, State, Zip Code)

(Print Name and Title of Authorized Signer)

(Authorized Signature)

(Telephone Number)

Acknowledged:

(Print Name of Transferee)

(Transferee's Authorized Signature)

(Print Authorized Signers Name and Title)

(Telephone Number/Fax Number)

(b) SIGNATURE GUARANTEED

Signature(s) with title(s) conform(s) with that/those on file with us for this individual, entity or company and signer(s) is/are authorized to execute this agreement. We attest that the individual, company or entity has been identified by us in compliance with USA PATRIOT Act procedures of our bank.

(Print Name of Bank)

(Address of Bank)

(City, State, Zip Code)

(Print Name and Title of Authorized Signer)

(Authorized Signature)

(Telephone Number)

NOTICE OF EXTENSION

[trustee], as Trustee (the “Bond Trustee”) under the Indenture of Trust (the “Indenture”) dated as of [date], between the County of [Carroll]
[Mercer], Kentucky and the Bond Trustee

[Address]

Attn:

Dear Sirs:

Reference is hereby made to that certain Irrevocable Transferable Direct Pay Letter of Credit No. _____ dated [date] (the “Letter of Credit”), established by us in your favor as Beneficiary. We hereby notify you that, in accordance with the terms of the Letter of Credit, the Stated Expiration Date of the Letter of Credit has been extended to _____, _____.

This letter should be attached to the Letter of Credit and made a part thereof.

SUMITOMO MITSUI BANKING
CORPORATION, NEW YORK BRANCH

By:
[Title of Authorized Officer]

REINSTATEMENT CERTIFICATE

SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH

as Issuing Lender

277 Park Avenue

New York, NY 10172

ATTENTION: TRADE CREDIT SERVICES DEPARTMENT

Telephone: (212) 224-4310

Facsimile: (212) 224-4566

The undersigned hereby certifies to [Issuing Bank] (the “Issuing Bank”), with reference to Irrevocable Transferable Direct Pay Letter of Credit No. _____ (the “Letter of Credit”) issued by the Issuing Bank in favor of the Bond Trustee (as such term and all other terms used but not otherwise defined herein are defined in the Letter of Credit), that:

1. The undersigned is the Bond Trustee under the Indenture.
 2. The Bond Trustee has previously made a Liquidity Drawing under the Letter of Credit on _____ in the amount of U.S. \$_____ (representing U.S. \$_____ of principal and U.S. \$_____ of interest) with respect to the purchase price of Bonds which are now held as Custody Bonds in accordance with the Indenture.
 3. The Bond Trustee has received, on behalf of the Issuing Bank, proceeds (the “Remarketing Proceeds”) from the sale of remarketed Custody Bonds originally purchased with the proceeds of the above described Liquidity Drawing and as of the date hereof holds, on behalf of the Issuing Bank, in the Remarketing Proceeds Subaccount established under the Indenture the amount of U.S. \$_____ (representing U.S. \$_____ of principal and U.S. \$_____ of interest) with respect to the sale of such Custody Bonds.
 4. The Bond Trustee shall deliver the Remarketing Proceeds to the Issuing Bank on the same day as the Remarketing Proceeds are received by the Bond Trustee (on behalf of the Issuing Bank) in immediately available funds by depositing such Remarketing Proceeds with [Issuing Bank] SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH through the Fedwire to Citibank, N.A., New York, ABA 021-000-089, in favor of SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH A/C #36023837. Ref: Kentucky Utilities, Reference: Letter of Credit No. _____, or as otherwise directed by the Issuing Bank.
 5. In accordance with the terms of the Letter of Credit, the Stated Amount under the Letter of Credit is deemed automatically reinstated in an amount equal to [\$_____] (total amount of paragraph 3 above).
-

IN WITNESS WHEREOF, the undersigned has executed and delivered this Certificate this ____ day of _____, ____.

[TRUSTEE], as Bond Trustee

By:
[Title of Authorized Officer]

[FORM OF CUSTODY, PLEDGE AND SECURITY AGREEMENT]

This CUSTODY, PLEDGE AND SECURITY AGREEMENT (together with all exhibits, schedules, attachments and appendices hereto, as amended from time to time, this “Pledge Agreement”), dated as of _____, is entered into by and among KENTUCKY UTILITIES COMPANY (the “Pledgor”), [CUSTODIAN], as Custodian (the “Custodian”), and [ISSUING BANK], as Issuing Bank (the “Issuing Bank”), pursuant to that certain Reimbursement Agreement dated as of _____, between the Pledgor and the Issuing Bank (hereinafter, together with all schedules, attachments and appendices thereto, as from time to time amended or supplemented, the “Reimbursement Agreement”). Any capitalized term used herein, and not defined elsewhere in this Agreement, shall have the meaning set forth in the Reimbursement Agreement.

RECITALS :

A. The County of [Carroll][Mercer], Kentucky (the “Issuer”) has issued \$_____ aggregate principal amount of its County of [Carroll, Kentucky, Environmental Facilities][Mercer, Kentucky, Solid Waste Disposal Facility] Revenue [Refunding] Bonds, [Insert Series] (Kentucky Utilities Company Project) (the “Bonds”), pursuant to a certain Indenture of Trust dated as of [date], [as amended and restated as of September 1, 2008 and] as [further] amended and supplemented pursuant to Supplemental Indenture No. 1 to [Amended and Restated] Indenture of Trust dated as of September 1, 2010 (the “Bond Indenture”), between the Issuer and [Trustee], as trustee (in such capacity, the “Bond Trustee”).

B. The Bond Indenture requires that the Bonds be purchased under certain circumstances from the owners thereof in accordance with the terms and conditions of the Bond Indenture.

C. The Pledgor has entered into that certain Remarketing and Bond Purchase Agreement dated as of [date] (together with all exhibits, schedules, attachments and appendices thereto, as amended, supplemented or restated from time to time, the “Remarketing Agreement”) between [Remarketing Agent], as the initial remarketing agent (“Remarketing Agent”), and the Pledgor, pursuant to which Remarketing Agent has agreed to use its reasonable best efforts to remarket the Bonds under specified terms and conditions as provided in the Remarketing Agreement.

D. The Pledgor has agreed to enter into the Reimbursement Agreement in order to cause the Issuing Bank to issue its Letter of Credit (as defined in the Reimbursement Agreement) which may be used to pay principal of and interest on and the purchase price of the Bonds pledged to the Issuing Bank in accordance with the Bond Indenture (the “Pledged Bonds”).

NOW, THEREFORE, in consideration of the premises and in order to induce the Issuing Bank to enter into the Reimbursement Agreement and the Issuing Bank to issue its Letter of Credit thereunder and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Pledge and Security Interest. The Pledgor hereby pledges, grants, assigns, conveys, hypothecates, transfers, and delivers to the Issuing Bank, all of the Pledgor’s right, title and interest in and to the Pledged Bonds and hereby grants to the Issuing Bank, a first lien on, and security interest in, its right, title and interest in and to the Pledged Bonds, the interest thereon and all proceeds thereof, as collateral security for the prompt and complete payment and satisfaction when due of all indebtedness, obligations, liabilities and amounts from time to time owing by the Pledgor to the Issuing Bank under or in connection with the

Reimbursement Agreement, including, without limitation, interest thereon (all of the foregoing indebtedness, obligations, liabilities and amounts from time to time owing to the Issuing Bank by the Pledgor being hereinafter called the “Bank Obligations”).

2. Notation of Pledge. (a) The Issuing Bank hereby appoints the Custodian as its agent to receive and hold Pledged Bonds for the benefit of the Issuing Bank. Upon the application of any drawing under the Letter of Credit to pay the purchase price of Bonds, such Bonds shall constitute Pledged Bonds, shall be owned by the Pledgor and registered in the name of the Issuing Bank or its designee or nominee as pledgee and delivered to the Custodian to be held for the benefit of the Issuing Bank. The Custodian shall release such Pledged Bonds only in accordance with Section 5 hereof.

(b) The parties hereby acknowledge and agree that if the ownership of the Bonds or a portion thereof is maintained as a fully registered Bond registered in the name of The Depository Trust Company, New York, New York (“DTC”), or its nominee (“Book-Entry Form”), all references herein to the “holding” and “release” of Pledged Bonds shall relate to the recording of beneficial ownership of Pledged Bonds.

(c) The Custodian shall be responsible for instructing the Bond Trustee or other bond registrar under the Bond Indenture to effect any changes on the bond registration books necessary for recording of ownership and pledging of Pledged Bonds or beneficial interests in Pledged Bonds.

3. Payments on the Bonds; Voting Rights. (a) If, while this Pledge Agreement is in effect, the Pledgor shall become entitled to receive or shall receive any payment, including, without limitation, any payment of interest, principal or proceeds of sale in respect of the Pledged Bonds, the Pledgor agrees to accept the same as the Issuing Bank’s agent and to hold the same in trust on behalf of the Issuing Bank and to deliver the same forthwith to the Custodian for payment to the Issuing Bank. All sums of money so paid in respect of the Pledged Bonds which are received by the Pledgor and paid to the Issuing Bank shall be first credited as set forth in (and subject to the provisions of) the Reimbursement Agreement.

(b) During such time as the Bonds are pledged to the Issuing Bank under the terms of this Pledge Agreement, the Issuing Bank shall be entitled to exercise all of the rights of an owner of Bonds with respect to voting, consenting and directing DTC, as if the Issuing Bank were the owner of such Bonds, and the Pledgor hereby grants and assigns to the Issuing Bank all such rights.

4. Collateral. All Pledged Bonds, and all income therefrom and proceeds thereof, are herein collectively sometimes called the “Collateral.”

5. Release of Pledged Bonds. (a) Upon payment (full or partial) to the Issuing Bank, or the Bond Trustee on behalf of the Issuing Bank, of any Obligations, other than payments from the proceeds of a remarketing of the Bonds, and otherwise when required pursuant to Section 3 of the Reimbursement Agreement, the Issuing Bank agrees to

release from the lien of this Pledge Agreement the Pledged Bonds from the pledge and security interest created herein, and to instruct the Custodian in writing to release and transfer to the order of the Pledgor, Pledged Bonds in a principal amount equal to the amount of the repayment allocable to principal of such drawing; provided, however, that the Issuing Bank shall not be obligated to release Pledged Bonds in an amount less than the minimum denomination permitted under the Bond Indenture for the Bonds (except in a situation in which the total amount of Pledged Bonds held by the Issuing Bank is less than such minimum denomination). Upon payment to the Issuing Bank (or the Bond Trustee on behalf of the Issuing Bank) as aforesaid, any notation on the book-entry records of the Bonds evidencing the pledge of such Bonds to the Issuing Bank shall be removed. If the Pledged Bonds have been remarketed pursuant to the Bond Indenture, so long as no Event of Default or Default then exists, the Issuing Bank shall also release to the purchaser of the Bonds from the pledge and security interest created by this Pledge Agreement a principal amount of Pledged Bonds equal to the principal amount of Bonds purchased by such purchaser. Bonds shall be released under this Pledge Agreement (i) upon notice from the Pledgor or the Remarketing Agent to the Issuing Bank specifying the principal amount of Bonds purchased or to be delivered to such purchaser, and (ii) upon receipt by the Bond Trustee (on behalf of the Issuing Bank) of remarketing proceeds with respect to such remarketed Bonds, all in accordance with the Bond Indenture. The proceeds of any such remarketing shall be delivered to the Issuing Bank on the same day as the Pledged Bonds are released from the lien and security interest of this Pledge Agreement in immediately available funds by depositing such proceeds with _____ through the Federal Reserve Wire System to ABA No. _____ at the Federal Reserve Bank of New York for credit of _____, Attn: _____, Account No. _____, RE: Kentucky Utilities, Reference: Letter of Credit No. _____, or as otherwise directed by the Issuing Bank.

(b) Upon an acceleration of all Bonds pursuant to the Bond Indenture and payment to the Issuing Bank of all amounts due on the Pledged Bonds, upon the request of the Issuing Bank, the Custodian shall be authorized to, and shall, cancel all Pledged Bonds held hereunder; provided, however, that such cancellation shall not constitute a release of the Pledgor's obligations to the Issuing Bank with respect to the Bank Obligations.

6. Event of Default. The term "Event of Default" shall mean an Event of Default as defined in the Reimbursement Agreement.

7. Rights of the Issuing Bank. The Issuing Bank shall not be liable for failure to collect or realize upon the Bank Obligations, the Collateral or any collateral security or guaranty therefor, or any part thereof, or for any delay in so doing, nor shall the Issuing Bank be under any obligation to take any action whatsoever with regard thereto or in respect of preserving rights against prior parties. If an Event of Default or event which with notice or lapse of time or both would become an Event of Default has occurred and is continuing, the Issuing Bank may thereafter, without notice, exercise all rights, privileges or options pertaining to the Pledged Bonds as if it were the absolute owner thereof, upon such terms and conditions as it may determine, all without liability except to account for property

actually received by it, but the Issuing Bank shall not have any duty to exercise any of the aforesaid rights, privileges or options nor shall the Issuing Bank be responsible for any failure to do so or delay in so doing.

8. Remedies. At any time that an Event of Default has occurred and is continuing as a result of all or any portion of the Bank Obligations owing to the Issuing Bank not being paid when due, the Issuing Bank, without demand of performance or other demand, advertisement or notice of any kind (except the notice specified below of time and place of public or private sale) to or upon the Pledgor or any other person (each of which demands, advertisements or notices are hereby expressly waived), may forthwith instruct the Custodian to transfer to the Issuing Bank all or any portion of the Collateral relating to the Pledged Bonds, or may forthwith collect, receive, appropriate and realize upon the Collateral relating to the Pledged Bonds, or any part thereof, and may forthwith sell, assign, give option or options to purchase, contract to sell or otherwise dispose of and deliver said Collateral, or any part thereof, in one or more parcels at public or private sale or sales, at any exchange, broker's board or at any of the Issuing Bank's offices or elsewhere upon such terms and conditions and at such prices as it may deem advisable in its discretion, exercised in a commercially reasonable manner, for cash or on credit or for future delivery without assumption of any credit risk, with the right to the Issuing Bank upon any such sale or sales, public or private, to purchase the whole or any part of said Collateral so sold, free of any right or equity of redemption in the Pledgor, which right or equity is hereby expressly waived and released to the fullest extent permitted under law. The Issuing Bank shall apply all the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all reasonable costs and expenses of every kind incurred therein or incidental to the care, safekeeping or otherwise of any and all of the Collateral in any way relating to the rights of the Issuing Bank hereunder, including reasonable attorneys' fees and legal expenses, to the payment in whole or in part, of the Bank Obligations owing to the Issuing Bank in such order as prescribed in the Reimbursement Agreement (with the Pledgor remaining liable for any deficiency remaining unpaid after such application), and only after so applying such net proceeds and after the payment by the Issuing Bank of any other amount required by any provision of Law, including, without limitation Section 9-504(1)(c) (or any successor section thereto) of the Uniform Commercial Code of the State of New York, shall the Issuing Bank apply the surplus, if any, to the account of the Pledgor. The Pledgor agrees that the Issuing Bank need not give more than ten (10) business days' notice of the time and place of any public sale or of the time after which a private sale or other intended disposition is to take place and that such notice is reasonable notification of such matters. In addition to the rights and remedies granted to the Issuing Bank in this Pledge Agreement and in any other instrument or agreement securing, evidencing or relating to any of the Bank Obligations, the Issuing Bank shall have all the rights and remedies of a secured party, and the Pledgor shall have all the rights of a debtor, under the Uniform Commercial Code of the State of New York. The Pledgor further agrees that the Pledgor shall be liable for the deficiency if the proceeds of any sale or other disposition of the Collateral relating to the Pledged Bonds are insufficient to pay all amounts to which the Issuing Bank is entitled, and the reasonable fees of any attorneys reasonably employed by the Issuing Bank to collect such deficiency. The parties hereto acknowledge that, following any such sale or other disposition of Collateral relating to the Pledged Bonds which is not accompanied by a reinstatement in full of the

Letter of Credit (to the extent necessary to provide the required principal and interest coverage of such Pledged Bonds), the then rating assigned by any Rating Agency on the Bonds may be withdrawn and may not apply to such Pledged Bonds.

9. Representations and Warranties of the Pledgor. The Pledgor hereby represents and warrants that:

(a) on the date of notation of the pledge to the Issuing Bank of any Pledged Bonds on the records of DTC and the deposit of the Pledged Bonds via book-entry into an account maintained by the Issuing Bank at DTC (the “Pledge Date”), neither the Pledgor, the Remarketing Agent, the Bond Trustee nor any other Person will have any right, title or interest in and to the Pledged Bonds (other than those rights described herein and in the Bond Indenture);

(b) it has, and on the Pledge Date will have, full power, authority and legal right to pledge all of its rights, title and interest in and to the Pledged Bonds pursuant to this Pledge Agreement; and

(c) assuming compliance by the Custodian with Section 2 hereof, the pledge and assignment of the Pledged Bonds pursuant to this Pledge Agreement will create a valid first lien on and a first perfected security interest in, all right, title or interest of the Pledgor in or to such Pledged Bonds, and the proceeds thereof, subject to no prior pledge, lien, mortgage, hypothecation, security interest, charge, option or encumbrance or to any agreement purporting to grant to any third party a security interest in the property or assets of the Pledgor which would include the Pledged Bonds.

10. No Disposition, Etc. Subject to the provisions of Section 5 hereof and subject to the Bond Indenture and Remarketing Agreement, without the prior written consent of the Issuing Bank, the Pledgor agrees that it will not sell, assign, transfer, exchange or otherwise dispose of, or grant any option with respect to, the Collateral relating to the Pledged Bonds, nor will it create, incur or permit to exist any pledge, lien, mortgage, hypothecation, or security interest therein, or any proceeds thereof, except for the lien and security interest provided for by this Pledge Agreement. The Pledgor hereby covenants and agrees that it will defend the Issuing Bank’s right, title and security interest in and to the Pledged Bonds relating to the Letter of Credit and the proceeds thereof against the claims and demands of all persons whomsoever.

11. Sale of Collateral. (a) The Pledgor recognizes that the Issuing Bank may be unable to effect a public sale of any or all of its Pledged Bonds by reason of certain prohibitions contained in the Securities Act of 1933, as amended (the “Securities Act”), and applicable state securities laws, but may be compelled to resort to one or more private sales thereof to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. The Pledgor acknowledges and agrees that any such private sale may result in prices and other terms less favorable to the seller than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall

be deemed to have been made in a commercially reasonable manner provided that the private sale is made in a commercially reasonable manner for private sales. The Issuing Bank shall be under no obligation to delay a sale of any of the Pledged Bonds for the period of time necessary to permit the Pledgor to register such securities for public sale under the Securities Act, or under applicable state securities laws, even if the Pledgor would agree to do so. Notwithstanding anything contained in this Section 11, the Pledgor shall not be required to register such securities for public sale under the Securities Act or any applicable state securities laws.

(b) Subject to the other terms of this Pledge Agreement, the Pledgor further agrees to do or cause to be done all such other acts and things as may be reasonably necessary to make such sale or sales of any portion or all of the Pledged Bonds valid and binding and in compliance with any and all applicable laws, regulations, orders, writs, injunctions, decrees or awards of any and all courts, arbitrators or governmental instrumentalities, domestic or foreign, having jurisdiction over any such sale or sales, all at the Pledgor' expense. The Pledgor further agrees that a breach of any of the covenants contained in this Section 11 will cause irreparable injury to the Issuing Bank, that the Issuing Bank has no adequate remedy at law in respect of such breach and, as a consequence, agrees that each and every covenant contained in this Section shall be specifically enforceable against the Pledgor. The Pledgor further acknowledges the impossibility of ascertaining the amount of damages which would be suffered by the Issuing Bank by reason of a breach of any of such covenants and, consequently, agrees that, if the Issuing Bank shall sue for damages for breach, it shall pay, as liquidated damages and not as a penalty, an amount equal to the par value plus accrued interest on the Pledged Bonds relating to the Issuing Bank on the date the Issuing Bank shall demand compliance with this Section (less an amount equal to the par value plus accrued interest on any Pledged Bonds sold between the date the Issuing Bank shall have demanded compliance with this Section and the date of payment of such liquidated damages), and the Issuing Bank agrees to release its lien on all of its unsold Pledged Bonds to the Pledgor upon payment of such liquidated damages; in no event shall such liquidated damages exceed the amount of the then outstanding Bank Obligations owing to the Issuing Bank plus all amounts which remain available for draw under its Letter of Credit (it being agreed that any such liquidated damages in respect of the undrawn Letter of Credit shall be held in trust for the parties hereto for payment as such losses in respect thereof are incurred by the Issuing Bank and shall be returned to the Pledgor to the extent a loss in respect thereof is not incurred by the Issuing Bank prior to the expiration of the Letter of Credit).

(c) The Pledgor and the Issuing Bank acknowledge that, following any such sale or other disposition of Collateral relating to the Pledged Bonds which is not accompanied by a reinstatement in full of the Letter of Credit (to the extent necessary to provide the required principal and interest coverage of such Pledged Bonds), the then rating assigned by any Rating Agency on the Bonds may be withdrawn and may not apply to such Pledged Bonds.

12. Further Assurances. The Pledgor agrees that at any time and from time to time upon the written request of the Issuing Bank, the Pledgor will execute and deliver such further documents and do such further acts and things as the Issuing Bank may reasonably request in order to effect the purposes of this Pledge Agreement.

13. Severability. Any provision of this Pledge Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

14. No Waiver; Cumulative Remedies. The Issuing Bank shall not by any act, delay, omission or otherwise be deemed to have waived any of its rights or remedies hereunder and no waiver shall be valid unless in writing, signed by the Issuing Bank, and then only to the extent therein set forth. A waiver by the Issuing Bank of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Issuing Bank would otherwise have on any future occasion. No failure to exercise nor any delay in exercising on the part of the Issuing Bank, of any right, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and may be exercised singly or concurrently, and are not exclusive of any rights or remedies provided by law. Time is of the essence in the interpretation and performance of this Pledge Agreement.

15. Amendments; Applicable Law. None of the terms or provisions of this Pledge Agreement may be altered, modified or amended except by an instrument in writing, duly executed by the Issuing Bank, the Custodian and the Pledgor. This Pledge Agreement and all obligations of the Pledgor hereunder shall be binding upon the successors and assigns of the Pledgor, and shall, together with the rights and remedies of the Issuing Bank hereunder, inure to the benefit of the Issuing Bank and its successors and assigns. This Pledge Agreement shall be governed by, and be construed, enforced and interpreted in accordance with, the internal laws of the State of New York.

16. Term. This Pledge Agreement shall remain in full force and effect for so long as the Letter of Credit is in effect or any amount is owed to the Issuing Bank under the Reimbursement Agreement or any amount is owed pursuant to the Reimbursement Agreement.

17. The Custodian. (a) The Custodian shall not be subject to any liability hereunder with respect to Collateral held in its custody, except for its gross negligence or willful misconduct.

(b) To the extent permitted by law from legally available funds, the Pledgor agrees to indemnify the Custodian and its officers, agents, directors and employees against any loss, claim, liability or expense, reasonably incurred without gross

negligence or willful misconduct on the part of the Custodian or such person, arising out of or in connection with this Pledge Agreement, including any of its duties as Custodian hereunder, including the reasonable costs and expenses of defending itself from any claim or liability in connection herewith. Notwithstanding the foregoing, the Custodian shall have all of the rights (including indemnification rights), benefits, privileges and immunities granted to the Bond Trustee under the Bond Indenture, all of which are incorporated herein *mutatis mutandis*. The provisions of this paragraph shall survive the termination of this Pledge Agreement or the resignation or removal of the Custodian. At the reasonable request and expense of the Pledgor, the Custodian shall cooperate in making any investigation and defense of any indemnified claim or demand and shall assert appropriately the rights, privileges and defenses which are available to the Custodian in connection therewith.

(c) In the event of its resignation or removal as the Bond Trustee under the Bond Indenture, the Custodian shall resign or be removed under this Pledge Agreement, and the successor trustee appointed under the Bond Indenture shall be appointed by the Issuing Bank as the successor Custodian under this Pledge Agreement. Upon the acceptance of any appointment as Custodian hereunder by a successor Custodian, such successor Custodian shall thereupon succeed to and become invested with all the rights, powers, privileges and duties of the retiring Custodian, and the resignation or removal of the retiring Custodian shall be effective as of such date. After the effective date of any retiring Custodian's resignation or removal as Custodian hereunder, the provisions of this Section 17 shall remain applicable to it as to any actions taken or omitted to be taken by it while it was Custodian under this Pledge Agreement.

(d) The Custodian has executed this Pledge Agreement solely as Custodian for the Issuing Bank in accordance with the terms hereof and hereby agrees not to exercise any right or remedy, including a right of set-off, it may have at any time with respect to any of the Collateral, except in accordance with the provisions of this Pledge Agreement or the written instructions of the Issuing Bank.

(e) The Custodian has executed this Pledge Agreement solely in connection with its role as Bond Trustee under the Bond Indenture, and in the event of any conflict between the terms of the Bond Indenture and this Pledge Agreement as to the duties of the Custodian, the terms of the Bond Indenture shall control.

18. Notices. Notices given to the Pledgor or the Issuing Bank pursuant to this Pledge Agreement shall be delivered to such address and through such means as shall be provided in the Reimbursement Agreement or to such other address as any party may specify in a notice to the other parties. Notwithstanding anything herein to the contrary, notices to release Pledged Bonds may be made by telecopy and each such notice shall be promptly confirmed in writing. Notices given to the Custodian pursuant to this Pledge Agreement shall be addressed as follows:

[TRUSTEE]
[Address]

Attn:

[SIGNATURE PAGES IMMEDIATELY FOLLOW]

IN WITNESS WHEREOF, the parties hereto have executed this Custody, Pledge and Security Agreement as of the date first above written.

KENTUCKY UTILITIES COMPANY, as the Pledgor

By:
Name:
Title:

[ISSUING BANK], as Issuing Bank

By:
Name:
Title:

[CUSTODIAN], as Custodian

By:

Name:

Title:

Form of Assignment and Assumption Agreement

This Assignment and Assumption (the “Assignment and Assumption”) is dated as of the Effective Date set forth below and is entered into by and between [the] [each] ¹ Assignor identified on the Schedules hereto as “Assignor” [or “Assignors” (collectively, the “Assignors” and each] an “Assignor”) and [the] [each] ² Assignee identified on the Schedules hereto as “Assignee” or “Assignees” (collectively, the “Assignees” and each an “Assignee”). [It is understood and agreed that the rights and obligations of [the Assignors] [the Assignees] ³ hereunder are several and not joint.] ⁴ Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the “Credit Agreement”), receipt of a copy of which is hereby acknowledged by [the] [each] Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, [the] [each] Assignor hereby irrevocably sells and assigns to [the Assignee] [the respective Assignees], and [the] [each] Assignee hereby irrevocably purchases and assumes from [the Assignor] [the respective Assignors], subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (a) all of [the Assignor’s] [the respective Assignors’] rights and obligations in [its capacity as a Lender] [their respective capacities as Lenders] under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of [the Assignor] [the respective Assignors] under the letter of credit facility identified below (including any letters of credit included in such facilities) and (b) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of [the Assignor (in its capacity as a Lender)] [the respective Assignors (in their respective capacities as Lenders)] against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (a) above (the rights and obligations sold and assigned by [the] [any] Assignor to [the] [any] Assignee pursuant to clauses (a) and (b) above being referred to herein collectively as, the “Assigned Interest”). Each such sale and assignment is without recourse to [the] [any] Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by [the] [any] Assignor.

-
- ¹ For bracketed language here and elsewhere in this form relating to the Assignor(s), if the assignment is from a single Assignor, choose the first bracketed language. If the assignment is from multiple Assignors, choose the second bracketed language.
 - ² For bracketed language here and elsewhere in this form relating to the Assignee(s), if the assignment is to a single Assignee, choose the first bracketed language. If the assignment is to multiple Assignees, choose the second bracketed language.
 - ³ Select as appropriate.
 - ⁴ Include bracketed language if there are either multiple Assignors or multiple Assignees.
-

1. Assignor: *See Schedule attached hereto*
2. Assignee: *See Schedule attached hereto*
3. Borrower: Kentucky Utilities Company
4. Administrative Agent: Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, as the administrative agent under the Credit Agreement
5. Credit Agreement: The \$198,309,583.05 Amended and Restated Letter of Credit Agreement dated as of August 16, 2012 by and among Kentucky Utilities Company, as Borrower, the Lenders party thereto, Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, as Administrative Agent and Sumitomo Mitsui Banking Corporation, New York Branch, as Issuing Lender(as amended, amended and restated, supplemented or otherwise modified)
6. Assigned Interest: *See Schedule attached hereto*
7. Trade Date: _____] ⁵

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⁵ To be completed if the Assignor(s) and the Assignee(s) intend that the minimum assignment amount is to be determined as of the Trade Date.

Effective Date: _____, 20____

[TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR

[NAME OF ASSIGNOR]

By: _____
Title:

ASSIGNEE

See Schedule attached hereto

[Consented to and] ⁶ Accepted:

BANCO BILBAO VIZCAYA ARGENTARIA, S.A., NEW YORK BRANCH,
as Administrative Agent

By _____
Title:

[Consented to:] ⁷

KENTUCKY UTILITIES COMPANY

By _____
Title:

[Consented to]:

SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
as Issuing Lender

By _____
Title:

[Consented to]: ⁸

[ISSUING LENDER]
as Issuing Lender

By _____
Title:

⁶ To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.

⁷ To be added only if the consent of the Borrower is required by the terms of the Credit Agreement.

⁸ To be added only if there are additional Issuing Lenders.

SCHEDULE

To Assignment and Assumption

By its execution of this Schedule, the Assignee(s) agree(s) to the terms set forth in the attached Assignment and Assumption.

Assigned Interests:

Aggregate Amount of Commitment for all Lenders ⁹	Amount of Commitment Assigned ¹⁰	Percentage Assigned of Commitment ¹¹
\$	\$	%

[NAME OF ASSIGNEE] ¹²

[and is an Affiliate of [*identify Lender*]] ¹³

⁹ Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

¹⁰ Amount to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

¹¹ Set forth, to at least 9 decimals, as a percentage of the Commitment of all Lenders thereunder.

¹² Add additional signature blocks, as needed.

¹³ Select as applicable.

ANNEX 1 to Assignment and Assumption

AMENDED AND RESTATED LETTER OF CREDIT AGREEMENT
DATED AS OF AUGUST 16, 2012
BY AND AMONG
KENTUCKY UTILITIES COMPANY, AS BORROWER,
THE LENDERS PARTY THERETO
BANCO BILBAO VIZCAYA ARGENTARIA, S.A., NEW YORK BRANCH,
AS ADMINISTRATIVE AGENT
STANDARD TERMS AND CONDITIONS FOR ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1 Assignor. [The] [Each] Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of [the] [the relevant] Assigned Interest, (ii) [the] [such] Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. [The] [Each] Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement (subject to receipt of such consents as may be required under the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 6.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the] [the relevant] Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender, and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, [the] [any] Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations that by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts that have accrued to but excluding the Effective Date and to the Assignee for amounts that have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment

and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by and construed in accordance with the internal laws of the State of New York.

Form of Letter of Credit Request

_____, ____

[Insert details of Issuing Lender]

Ladies and Gentlemen:

This notice shall constitute a "Letter of Credit Request" pursuant to Section 3.03 of the \$198,309,583.05 Letter of Credit Agreement dated as of April 29, 2011 (the "Credit Agreement") among Kentucky Utilities Company, the lending institutions party thereto from time to time and Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, as Administrative Agent. Terms defined in the Credit Agreement and not otherwise defined herein have, as used herein, the respective meanings provided for therein.

The undersigned hereby requests that _____¹⁴ issue a [Standby] Letter of Credit on _____, _____¹⁵ in the aggregate amount of \$_____. [This request is to extend a Letter of Credit previously issued under the Credit Agreement; Letter of Credit No. _____.]

The beneficiary of the requested Standby Letter of Credit will be _____¹⁶ and such Standby Letter of Credit will be in support of _____¹⁷ and will have a stated termination date of _____¹⁸.

Copies of all documentation with respect to the supported transaction are attached hereto.

¹⁴ Insert name of Issuing Lender.

¹⁵ Must be a Business Day.

¹⁶ Insert name and address of beneficiary.

¹⁷ Insert a description of the obligations, the name of each agreement and/or a description of the commercial transaction to which this Letter of Credit Request relates.

¹⁸ Insert the last date upon which drafts may be presented (which may not be later than the fifth Business Day prior to the Termination Date).

KENTUCKY UTILITIES COMPANY

By: _____

Name:

Title:

APPROVED:

[ISSUING LENDER]

By: _____

Name:

Title:

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	9 Months Ended Sep. 30, 2012	Years Ended December 31,				
		2011	2010	2009	2008	2007
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 1,541	\$ 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
	<u>1,541</u>	<u>2,202</u>	<u>1,246</u>	<u>539</u>	<u>1,273</u>	<u>1,232</u>
Total fixed charges as below	782	1,022	698	513	568	609
Less:						
Capitalized interest	37	51	30	43	57	55
Preferred security distributions of subsidiaries on a pre-tax basis	5	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	<u>740</u>	<u>945</u>	<u>635</u>	<u>431</u>	<u>468</u>	<u>492</u>
Total earnings	<u>\$ 2,281</u>	<u>\$ 3,147</u>	<u>\$ 1,881</u>	<u>\$ 970</u>	<u>\$ 1,741</u>	<u>\$ 1,724</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 754	\$ 955	\$ 637	\$ 446	\$ 518	\$ 565
Estimated interest component of operating rentals	23	44	39	42	22	21
Preferred security distributions of subsidiaries on a pre-tax basis	5	23	21	24	27	23
Fixed charges of majority-owned share of 50% or less-owned persons			1	1	1	
Total fixed charges (b)	<u>\$ 782</u>	<u>\$ 1,022</u>	<u>\$ 698</u>	<u>\$ 513</u>	<u>\$ 568</u>	<u>\$ 609</u>
Ratio of earnings to fixed charges	<u>2.9</u>	<u>3.1</u>	<u>2.7</u>	<u>1.9</u>	<u>3.1</u>	<u>2.8</u>
Ratio of earnings to combined fixed charges and preferred stock dividends (c)	<u>2.9</u>	<u>3.1</u>	<u>2.7</u>	<u>1.9</u>	<u>3.1</u>	<u>2.8</u>

(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.

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	9 Months Ended Sep. 30, 2012	Years Ended December 31,				
		2011	2010	2009	2008	2007
Earnings, as defined:						
Income (Loss) from Continuing Operations Before						
Income Taxes	\$ 585	\$ 1,212	\$ 881	\$ (13)	\$ 671	\$ 785
Adjustments to reflect earnings from equity method investments on a cash basis		1	7	1		2
	<u>585</u>	<u>1,213</u>	<u>888</u>	<u>(12)</u>	<u>671</u>	<u>787</u>
Total fixed charges as below	177	259	426	364	390	388
Less:						
Capitalized interest	36	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	<u>141</u>	<u>209</u>	<u>246</u>	<u>218</u>	<u>176</u>	<u>117</u>
Total earnings	<u>\$ 726</u>	<u>\$ 1,422</u>	<u>\$ 1,134</u>	<u>\$ 206</u>	<u>\$ 847</u>	<u>\$ 904</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 159	\$ 223	\$ 387	\$ 321	\$ 374	\$ 374
Estimated interest component of operating rentals	18	36	38	42	15	14
Fixed charges of majority-owned share of 50% or less-owned persons			1	1	1	
Total fixed charges (b)	<u>\$ 177</u>	<u>\$ 259</u>	<u>\$ 426</u>	<u>\$ 364</u>	<u>\$ 390</u>	<u>\$ 388</u>
Ratio of earnings to fixed charges (c)	<u>4.1</u>	<u>5.5</u>	<u>2.7</u>	<u>0.6</u>	<u>2.2</u>	<u>2.3</u>

(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.

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS*(Millions of Dollars)*

	9 Months Ended Sep. 30, 2012	Years Ended December 31,				
		2011	2010	2009	2008	2007
Earnings, as defined:						
Income Before Income Taxes	\$ 146	\$ 257	\$ 192	\$ 221	\$ 278	\$ 246
Total fixed charges as below	78	105	102	121	114	143
Total earnings	<u>\$ 224</u>	<u>\$ 362</u>	<u>\$ 294</u>	<u>\$ 342</u>	<u>\$ 392</u>	<u>\$ 389</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 76	\$ 102	\$ 101	\$ 120	\$ 113	\$ 139
Estimated interest component of operating rentals	2	3	1	1	1	4
Total fixed charges (b)	<u>\$ 78</u>	<u>\$ 105</u>	<u>\$ 102</u>	<u>\$ 121</u>	<u>\$ 114</u>	<u>\$ 143</u>
Ratio of earnings to fixed charges	<u>2.9</u>	<u>3.4</u>	<u>2.9</u>	<u>2.8</u>	<u>3.4</u>	<u>2.7</u>
Preferred stock dividend requirements on a pre-tax basis						
	\$ 6	\$ 21	\$ 23	\$ 28	\$ 28	\$ 27
Fixed charges, as above	78	105	102	121	114	143
Total fixed charges and preferred stock dividends	<u>\$ 84</u>	<u>\$ 126</u>	<u>\$ 125</u>	<u>\$ 149</u>	<u>\$ 142</u>	<u>\$ 170</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>2.7</u>	<u>2.9</u>	<u>2.4</u>	<u>2.3</u>	<u>2.8</u>	<u>2.3</u>

(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.

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	Successor			Predecessor			
	9 Months Ended Sep. 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	\$ 275	\$ 419	\$ 70	\$ 300	\$ (1,235)	\$ (1,536)	\$ 332
Adjustment to reflect earnings from equity method investments on a cash basis	7	(1)		(4)	11		(5)
Loss on impairment of goodwill					1,493	1,806	
Mark to market impact of derivative instruments			2	(20)	(19)	34	
	<u>282</u>	<u>418</u>	<u>72</u>	<u>276</u>	<u>250</u>	<u>304</u>	<u>327</u>
Total fixed charges as below	<u>116</u>	<u>153</u>	<u>25</u>	<u>158</u>	<u>186</u>	<u>199</u>	<u>170</u>
Total earnings	<u>\$ 398</u>	<u>\$ 571</u>	<u>\$ 97</u>	<u>\$ 434</u>	<u>\$ 436</u>	<u>\$ 503</u>	<u>\$ 497</u>
Fixed charges, as defined:							
Interest charges (a)	\$ 112	\$ 147	\$ 24	\$ 153	\$ 176	\$ 184	\$ 155
Estimated interest component of operating rentals	4	6	1	5	5	5	4
Estimated discontinued operations interest component of rental expense					5	10	10
Preferred stock dividends							1
Total fixed charges and preferred stock dividends	<u>\$ 116</u>	<u>\$ 153</u>	<u>\$ 25</u>	<u>\$ 158</u>	<u>\$ 186</u>	<u>\$ 199</u>	<u>\$ 170</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>3.4</u>	<u>3.7</u>	<u>3.9</u>	<u>2.7</u>	<u>2.3</u>	<u>2.5</u>	<u>2.9</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

LOUISVILLE GAS AND ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	Successor			Predecessor			
	9 Months Ended Sep. 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	\$ 148	\$ 195	\$ 29	\$ 167	\$ 142	\$ 131	\$ 179
Mark to market impact of derivative instruments			1	(20)	(20)	35	
	<u>148</u>	<u>195</u>	<u>30</u>	<u>147</u>	<u>122</u>	<u>166</u>	<u>179</u>
Total fixed charges as below	<u>32</u>	<u>46</u>	<u>8</u>	<u>40</u>	<u>46</u>	<u>60</u>	<u>53</u>
Total earnings	<u>\$ 180</u>	<u>\$ 241</u>	<u>\$ 38</u>	<u>\$ 187</u>	<u>\$ 168</u>	<u>\$ 226</u>	<u>\$ 232</u>
Fixed charges, as defined:							
Interest charges (a)	\$ 31	\$ 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 and preferred stock dividends	<u>\$ 32</u>	<u>\$ 46</u>	<u>\$ 8</u>	<u>\$ 40</u>	<u>\$ 46</u>	<u>\$ 60</u>	<u>\$ 53</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	<u>5.6</u>	<u>5.2</u>	<u>4.8</u>	<u>4.7</u>	<u>3.7</u>	<u>3.8</u>	<u>4.4</u>

(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 FIXED CHARGES

(Millions of Dollars)

	Successor			Predecessor			
	9 Months Ended Sep. 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	\$ 188	\$ 282	\$ 55	\$ 218	\$ 200	\$ 226	\$ 244
Adjustment to reflect earnings from equity method investments on a cash basis	7	(1)		(4)	11		(5)
Mark to market impact of derivative instruments					1	(1)	
	<u>195</u>	<u>281</u>	<u>55</u>	<u>214</u>	<u>212</u>	<u>225</u>	<u>239</u>
Total fixed charges as below	<u>54</u>	<u>73</u>	<u>11</u>	<u>71</u>	<u>79</u>	<u>77</u>	<u>59</u>
Total earnings	<u>\$ 249</u>	<u>\$ 354</u>	<u>\$ 66</u>	<u>\$ 285</u>	<u>\$ 291</u>	<u>\$ 302</u>	<u>\$ 298</u>
Fixed charges, as defined:							
Interest charges (a)	\$ 52	\$ 70	\$ 10	\$ 69	\$ 76	\$ 74	\$ 57
Estimated interest component of operating rentals	<u>2</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>3</u>	<u>2</u>
Total fixed charges	<u>\$ 54</u>	<u>\$ 73</u>	<u>\$ 11</u>	<u>\$ 71</u>	<u>\$ 79</u>	<u>\$ 77</u>	<u>\$ 59</u>
Ratio of earnings to fixed charges	<u>4.6</u>	<u>4.8</u>	<u>6.0</u>	<u>4.0</u>	<u>3.7</u>	<u>3.9</u>	<u>5.1</u>

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

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: November 8, 2012

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal 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: November 8, 2012

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

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: November 8, 2012

/s/ David G. DeCampli
David G. DeCampli
President
(Principal Executive Officer)
PPL Energy Supply, LLC

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2012

/s/ Paul A. Farr

Paul A. Farr
 Executive Vice President
 (Principal Financial Officer)
 PPL Energy Supply, LLC

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: November 8, 2012

/s/ Gregory N. Dudkin

Gregory N. Dudkin
 President
 (Principal Executive Officer)
 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: November 8, 2012

/s/ Vincent Sorgi

Vincent Sorgi
 Vice President and Chief Accounting Officer
 (Principal Financial and Accounting Officer)
 PPL Electric Utilities Corporation

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2012

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)
 LG&E and KU Energy LLC

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: November 8, 2012

/s/ Kent W. Blake

Kent W. Blake

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

LG&E and KU Energy LLC

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2012

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman, President and Chief Executive Officer
 (Principal Executive Officer)
 Louisville Gas and Electric Company

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: November 8, 2012

/s/ Kent W. Blake

Kent W. Blake

Chief Financial Officer

(Principal Financial Officer and Principal Accounting 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: November 8, 2012

/s/ Victor A. Staffieri

Victor A. Staffieri
 Chairman, President and Chief Executive Officer
 (Principal 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: November 8, 2012

/s/ Kent W. Blake

Kent W. Blake

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Kentucky Utilities Company

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2012

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Paul A. Farr, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2012

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

/s/ Paul A. Farr

Paul A. Farr
Executive Vice President and Chief Financial Officer
(Principal 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.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2012

In connection with the quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, David G. DeCampli, the Principal Executive Officer of the Company, and Paul A. Farr, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2012

/s/ David G. DeCampli
David G. DeCampli
President
(Principal Executive Officer)
PPL Energy Supply, LLC

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President
(Principal Financial Officer)
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.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2012

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Vincent Sorgi, the Principal Financial and Accounting Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2012

/s/ Gregory N. Dudkin
Gregory N. Dudkin
President
(Principal Executive Officer)
PPL Electric Utilities Corporation

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Chief Accounting Officer
(Principal Financial and Accounting Officer)
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2012

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2012

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
LG&E and KU Energy LLC

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting 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.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2012

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2012

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
Louisville Gas and Electric Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting 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.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2012

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Victor A. Staffieri, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2012

/s/ Victor A. Staffieri

Victor A. Staffieri
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
Kentucky Utilities Company

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting 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.